



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

Date: Tuesday, 13 September 2016

Committee:
Pensions Committee

Date: Friday, 17 March 2017

Time: 10.00 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 Davies
Malcolm Pate

Co-opted Members (Voting):

Malcolm Smith
David Wright

Co-opted Members (Non-Voting):

Jean Smith (Pensioner Representative)
Nigel Neat (Employee Representative)
Vacancy (Employee Representative)

Substitute Members of the Committee:

Joyce Barrow (SC)

Roger Evans (SC)

Stuart West (SC)

Michael Wood (SC)

Lee Carter (T&W)

Adrian Lawrence (T&W)

Vacancy (Pensioner Rep)

Vacancy (Employee Rep)

Your Committee Officer is:

Tim Ward Committee Officer

Tel: 01743 257713

Email: tim.ward@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 and 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 of the Last Meeting (Pages 1 - 8)

The minutes of the meeting held on 25 November 2016 are attached for confirmation marked 3.

Contact Tim Ward (01743 257713)

4 Public Questions

To receive any public questions or petitions from the public, notice of which has been given in accordance with Procedure Rule 14.

The deadline for this meeting is 5.00pm on Tuesday 14 March 2017

5 Investec (Global Equities)

To receive a presentation from Steven Lee and Ian Vose

6 Aon Hewitt (Investment Strategy Review)

To receive a presentation from Louis-Paul Hill and John Belgrove

7 Pimco (Illiquid and Opportunistic Credit Market)

To receive a presentation from Ed Berry

8 Grant Thornton - Shropshire County Pension Fund Audit Plan 2016/17 and Audit Risk Assessment for the Shropshire County Pension Fund 2016/17 (Pages 9 - 42)

The report of Grant Thornton is attached marked 8

9 Funding Strategy Statement (Pages 43 - 76)

The report of the Head of Treasury & Pensions is attached marked 9

10 Investment Strategy Statement (Pages 77 - 96)

The report of the Head of Treasury and Pensions is attached marked 10

11 Pension Fund Treasury Strategy 2017-18 (Pages 97 - 106)

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

12 Schedule of Committee and Other Meetings 2017/18 (Pages 107 - 112)

The report of the Head of Treasury & Pensions is attached marked 12

13 Corporate Governance Monitoring (Pages 113 - 172)

The report of the Investment Officer is attached marked 13

14 Pensions Administration Monitoring report (Pages 173 - 256)

The report of the Pension Administration Manager is attached marked 14

15 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 16 to 18 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

16 Exempt Minutes (Exempted by Categories 2 and 3) (Pages 257 - 260)

The exempt minutes of the meeting held on 25 November 2016 are attached for confirmation marked 3.

Contact Tim Ward (01743 257713)

17 Investment Monitoring Report (Exempted by Category 3) (Pages 261 - 308)

The Exempt Report of the Head of Treasury and Pensions is attached marked 17

18 Record of Breaches (Exempted by Category 3) (Pages 309 - 312)

The exempt report of the Pensions Administration Manager is attached Marked
18

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Pensions Committee

21 September 2016

10.00 am

MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 25 NOVEMBER 2016 10.00 AM - 12.25 PM

Responsible Officer: Tim Ward
Email: tim.ward@shropshire.gov.uk Tel: 01743 257713

Present:

Members of the Committee:

Councillor Malcolm Pate (Chairman)
Councillors Thomas Biggins, Andrew Davies and Roger Evans (Substitute) (substitute for Anne Chebsey)

Co-Opted Members (Voting):

Councillors David Wright

Co-Opted Members (Non-Voting):

Jean Smith

35 Apologies for Absence and Substitutions

35.1 Apologies for absence were received from Councillor Anne Chebsey, Councillor Malcolm Smith and Nigel Neat.

35.2 Councillor Roger Evans substituted for Councillor Chebsey

36 Disclosable Pecuniary Interests

36.2 Members were 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.

37 Minutes of the last Meeting

37.1 RESOLVED

That the minutes of the meeting held on 21 September 2016 be approved as a true record and signed by the Chairman

38 Public Questions

38.1 The following question had been received from Liz Evans: -

Given the increasing number of studies showing that fossil fuels are becoming stranded assets, at what point, or under what conditions will you divest from fossil fuels and invest only in sustainable investments to ensure that pension funds can continue to meet its obligations to pension fund members?

Response: -

The Pension Committee has an overriding duty to consider its financial responsibilities above any other considerations but it remains committed to these important issues. It therefore does not restrict its investment managers in the companies in which they can invest as this is contrary to the overriding financial responsibility of the Pension Committee. Although the Fund does not restrict its managers in the investments they make it takes corporate governance and environmental and social responsibility seriously. The Pension Committee believe it is more important to influence company behaviour from the inside as a shareholder. The Shropshire Fund is addressing these responsibilities through a strategy of responsible engagement with companies. Shropshire County Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which represents over 70 public sector pension funds in the UK. LAPFF recognises the issue of stranded assets and continued fossil fuel extraction as a collective investment risk for all asset owner funds and this is an engagement and policy priority. For companies engaged in fossil fuel extraction, LAPFF's approach is to undertake a robust engagement on aligning their business models to limiting global average temperature increases to a maximum of 2° C and to push for an orderly low carbon transition. The Fund also employs BMO Global Asset Management to engage with companies on the Fund's behalf. BMO have been at the forefront of raising concerns around potential asset stranding with a wide range of companies and the concept has begun to resonate within these industries. BMO's main engagement objectives include ensuring companies' stress test and disclose the range of possible future energy scenarios used for their strategic planning and set clear targets for mitigating these risks. In conclusion, the Fund takes seriously its obligations to pension fund members through its engagement policies and LAPFF membership but it does not restrict investment managers from investing in companies which they feel will produce the best financial returns for the Fund.

38.2 By way of a supplementary question Ms Evans asked for further information and examples on the engagement undertaken on behalf of the Shropshire Fund. The Head of Treasury and Pensions agreed to forward this to her after the meeting.

39 Blackrock (Hedge Funds and Fixed Income)

30.1 Peter Hunt, John Ware and James Edwards from Blackrock gave a presentation which set out the performance of the fund to date and future themes and strategies. They then took questions from the Committee.

40 **Harbourvest (Private Equity)**

- 40.1 Kathleen Bacon and Emily Archer from Harbourvest gave a presentation which gave an overview of the company, an update on performance to date and a review of the global market. They then took questions from the Committee

41 **Mercer (Actuarial Valuation)**

- 41.1 Mr John Livesey gave a presentation on the 2016 Actuarial Valuation. He advised Members that the current valuation at 31 March 2016 showed a funding level of 84% which was in line with expectations.

42 **Corporate Governance Monitoring**

- 42.1 The meeting received the report of the Investment Officer which set out Corporate Governance and socially responsible investment issues arising in the quarter 1st July 2016 to 30th September 2016

42.2 **RESOLVED:**

That Members accept the position as set out in the report, Manager Voting Reports at Appendix A and BMO Global Asset Management Responsible Engagement Overlay Activity Report at Appendix B

43 **Actuarial Valuation 2016**

- 43.1 Members received the report of the Head of Finance, Governance & Assurance which introduced the formal presentation of the 2016 Actuarial Valuation Report from the Funds Actuary, Mercer.
- 43.2 The Head of Finance, Governance & Assurance reminded Members that there was a requirement for funds within the pension scheme to be actuarially valued every three years.
- 43.3 **RESOLVED**

That Members formally approve the Actuarial Valuation Report

44 **Funding Strategy Statement**

- 44.1 Members received the report of the Head of Treasury & Pensions which informed Members of the requirement to publish an updated Funding Strategy Statement
- 44.2 **RESOLVED:**

That Members note the contents of the updated draft Funding Strategy Statement

That Members note that a further report will be brought to the next meeting of the Pensions Committee following consultation with employers.

45 LGPS Central Investment Pooling

- 45.1 The meeting received the report of the Head of Finance, Governance & Assurance which outlined changes that would be required to the operational and governance arrangements for the Shropshire County Pension Fund following the recent amendment of the Local Government Pension Scheme (LGPS) Investment Regulations.
- 45.2 The Head of Finance, Governance & Assurance reminded members that the revised regulations required all authorities to enter into joint (pooled) arrangements, and that work had been ongoing with seven partner funds to establish a jointly owned investment management company which would be known as 'LGPS Central', he advised that following Ministerial consent to the setting up of the company each participation council needed to formally approve the recommendations set out in the report.

45.3 **RESOLVED:**

That the Pension Committee recommend that Council approve the following recommendations:-

- 1.1 To enter into an Inter Authority Agreement with Cheshire West & Chester Council, Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and pursuant to that Inter Authority Agreement set up; and operate a Joint Committee under s102 of the Local Government Act 1972 to oversee the joint investment arrangements.
- 1.2 To agree that Cheshire West and Chester shall provide governance and administrative support to the Joint Committee on behalf of the participating Council's, subject to the appropriate cost sharing arrangements in respect of officer time and other expenses.
- 1.3 To become a joint shareholder of LGPS Central; a private company, limited by shares, held solely by the participating funds named in recommendation 2.1, on a 'one fund, one vote' basis; incorporated for investment management purposes and regulated under the Financial Services and Markets Act 2000.
- 1.4 To authorise the Shropshire Council Member who holds either the position of Chair or Vice Chair of the Shropshire County Pension Fund, to appoint themselves or other Shropshire Council Members of the Pension Committee to undertake the following roles:
- i) To act as the Council's representative on the Joint Committee;
 - ii) To exercise the Council's voting rights as a shareholder of LGPS Central, to be exercised in consultation with the Head of Finance Governance & Assurance (s151 Officer) where the vote is in respect of a

Reserved Matter as set out in Schedule 1 of the Shareholders agreement;

and each Member so appointed shall have delegated authority to undertake such roles.

- 1.5 To agree that the Shropshire Council Members appointed under recommendation 2.4 above shall be authorised to appoint a substitute, provided that substitute is a Shropshire Council Member of the Pensions Committee, and agree that, wherever possible, the Member (or their substitute) appointed to the Joint Committee shall not be the same Member as currently appointed to the Shareholder Forum, so as to avoid potential conflicts of interest.
- 1.6 To agree that the signatory on behalf of the Council as Shareholder shall be the Council's Head of Legal & Democratic Services.
- 1.7 To appoint the Head of Finance Governance & Assurance (s151 Officer) and Scheme Administrator of the Pension Fund or their nominated representative to represent the Council on a Practitioner Advisory Forum, providing joint officer support to the Joint Committee and Shareholder Forum.
- 1.8 To approve the revised terms of reference for the Shropshire County Pension Fund Committee as set out in Appendix 3 to this report.
- 1.9 To delegate authority to the Head of Finance Governance & Assurance (s151 Officer) in consultation with the Shropshire Council Chair or Vice Chair of the Pension Committee to negotiate and agree all necessary legal agreements to establish a joint asset pool and investment management company as outlined in this report and to implement the recommendations and to authorise their execution.

46 Pensions Administration Monitoring Report

- 46.1 The meeting received the report of the Pensions Administration Manager which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.
- 46.2 The Pensions Administration Manager advised the meeting that subsequent to the report being written she had received a request that the Committee approve Dr James William Boag as an Independent Registered Medical Practitioner as he would be covering Dr Nightingale's maternity leave.
- 46.3 **RESOLVED:**
 1. That Members accept the position as set out in the report.
 2. That the Committee approve the appointment of Dr James William Boag as an Independent Registered Medical Practitioner.

47 Exclusion of Press and Public

47.1 RESOLVED:

That under paragraph 10.2 of the Council's Access to Information Procedure Rules the proceedings of the Committee in relation to Agenda Items 14 to 18 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

48 Exempt Minutes (Exempted by Categories 2 and 3)

48.1 RESOLVED:

That the exempt minutes of the meeting held on 21 September 2016 be approved as a true record and signed by the Chairman

49 Investment Monitoring Report (Exempted by Category 3)

49.1 The Committee received the exempt report of the Head of Treasury and Pensions which provided Members with monitoring information on investment performance and managers for the period to 30 September 2016, and reports on the technical meetings held with managers since the quarter end.

49.2 RESOLVED:

That the position as set out in the exempt report be noted

50 New Admission Bodies (Exempted by Category 3)

50.1 The Committee received the exempt report of the Pension Administration Manager (copy attached to the Exempt signed Minutes) which provided Members with details regarding three new employer admissions to the Fund, all under Schedule 2 Part 3 Regulation 1(d)(i) of the Local Government Pension Scheme Regulations 2013.

50.2 RESOLVED:

That the recommendations in the exempt report of the Pension Administration Manager be approved

51 Appeals under the Internal Disputes Resolution Procedure (Exempted by Category 3)

51.1 Members received the report of the Pensions Administration Manager which updated them on stage 2 appeals to the Appointed Person under the Internal Disputes Resolution Procedure

51.2 RESOLVED:

That Members note the contents of the report

52 Record of Breaches (Exempted by Category 3)

52.1 Members received the report of the Pensions Administration Manager which In line with the Reporting Breaches policy provided them with a report of all breaches

52.2 RESOLVED:

That Members note the content of Appendix B to the report.

(The full version of Minutes 48 to 52 constitutes exempt information under Categories 2 and 3 of Paragraph 10.4 of the Council's Access to Information Rules and has accordingly been withheld from publication).

Signed (Chairman)

Date:

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The Audit Plan for Shropshire County Pension Fund

Year ended 31 March 2017

17 March 2017

John Gregory

Director

T 07880 456 107

E john.gregory@uk.gt.com

Jim McLarnon

Manager

T 07827 876 040

E james.a.mclarnon@uk.gt.com

Dave Rowley

Executive

T 07798 561 062

E david.m.rowley@uk.gt.com





Shropshire County Pension Fund
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus Queensway
Birmingham
B4 6AT
T +44 (0) 121 212 4000
www.grant-thornton.co.uk

17 March 2017

Dear Members of the Pensions Committee

Audit Plan for Shropshire County Pension Fund for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Shropshire County Pension Fund, the Pensions Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

John Gregory
Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1st April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

Triennial actuarial valuation of the fund

The results of the triennial review have now been reported. Overall the funding level has improved from the date of the last valuation. Members will need to consider the outcome of this review and the impact this will have on the fund in future investment decisions.

Increased value of assets

The value of the fund's assets has increased significantly in the period since 31 March 2016 in response to global financial developments.

Key challenges

Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. The structure and governance of these arrangements will need to be implemented before this date. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored. Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Local challenges

The direction of travel is for benefits payable to be greater than contributions received for the foreseeable future. The fund will need to adapt to this.

Key performance indicators

Measure	Value
Net assets under management	£1.67bn
Total membership	42,187
Number of employers	152

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those Funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications, and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

Reliance on estimates

As the administering authority brings forward its year end timetable in response to the legislative changes, this has created an increased reliance on estimated year end positions with regard to valuation of investment assets. This may well present a challenge at year end as the cumulative impact increases the risk of material misstatement.

Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by the end of June 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £16,711k (being 1% of net assets). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £836k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures.	5% of the value of expenses
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	10% of the value of the highest disclosure

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	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: <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Shropshire County Pension Fund.
Management override of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	Work planned: <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and control environment and selection of large and unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<p>Level 3 Investments Valuation is incorrect</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 15</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>Work completed to date:</p> <ul style="list-style-type: none"> • We have updated our understanding of your process for valuing level 3 investment through discussions with relevant personnel from the Pension Fund during the interim audit. • We have performed walkthrough tests of the controls identified in the process. <p>Further work planned:</p> <ul style="list-style-type: none"> • For a sample of investments, test valuations by obtaining and reviewing the 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. • Review the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • Review the competence, expertise and objectivity of any management experts used.

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • We have updated our understanding of your process for valuing level 3 investment through discussions with relevant personnel from the Pension Fund during the interim audit. • We have performed walkthrough tests of the controls identified in the process. <p>Further work planned:</p> <ul style="list-style-type: none"> • 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.
Contributions	Recorded contributions not correct. (Occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> ▪ We have selected of employee contributions (up to month 9) and requested supporting documentation from member employer payroll departments. ▪ We have performed walkthrough tests of the controls identified in the process. ▪ Controls testing over occurrence, completeness and accuracy of contributions was performed during the 2014/15 audit – ISA 330 permits us to place reliance upon the results of these tests during the current period. <p>Further work planned:</p> <ul style="list-style-type: none"> ▪ Test a sample of contributions from months 10 - 12 to source data to gain assurance over their accuracy and occurrence. ▪ 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.

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <ul style="list-style-type: none"> ▪ We have selected a sample of changes to member data during the year to month 9 and tested to supporting documentation. ▪ We have performed walkthrough tests of the controls identified in the process. ▪ Controls testing relating to verifications with individual members was performed during the 2014/15 audit – ISA 330 permits us to place reliance upon the results of these tests during the current period. <p>Further work planned:</p> <ul style="list-style-type: none"> • Sample testing of changes to member data made during the period months 10 - 12 to source documentation
Benefits payable	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> ▪ We have selected a sample of changes to member data during the year to month 9 and tested to supporting documentation. ▪ We have performed walkthrough tests of the controls identified in the process. ▪ Controls testing over completeness, accuracy and occurrence of benefit payments was performed during the 2014/15 audit – ISA 330 permits us to place reliance upon the results of these tests during the current period. <p>Further work planned:</p> <ul style="list-style-type: none"> • Test a sample of individual pensions from the period months 10 - 12 in payment by reference to member files. • 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.

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"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Administrative expenses
- Cash deposits
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

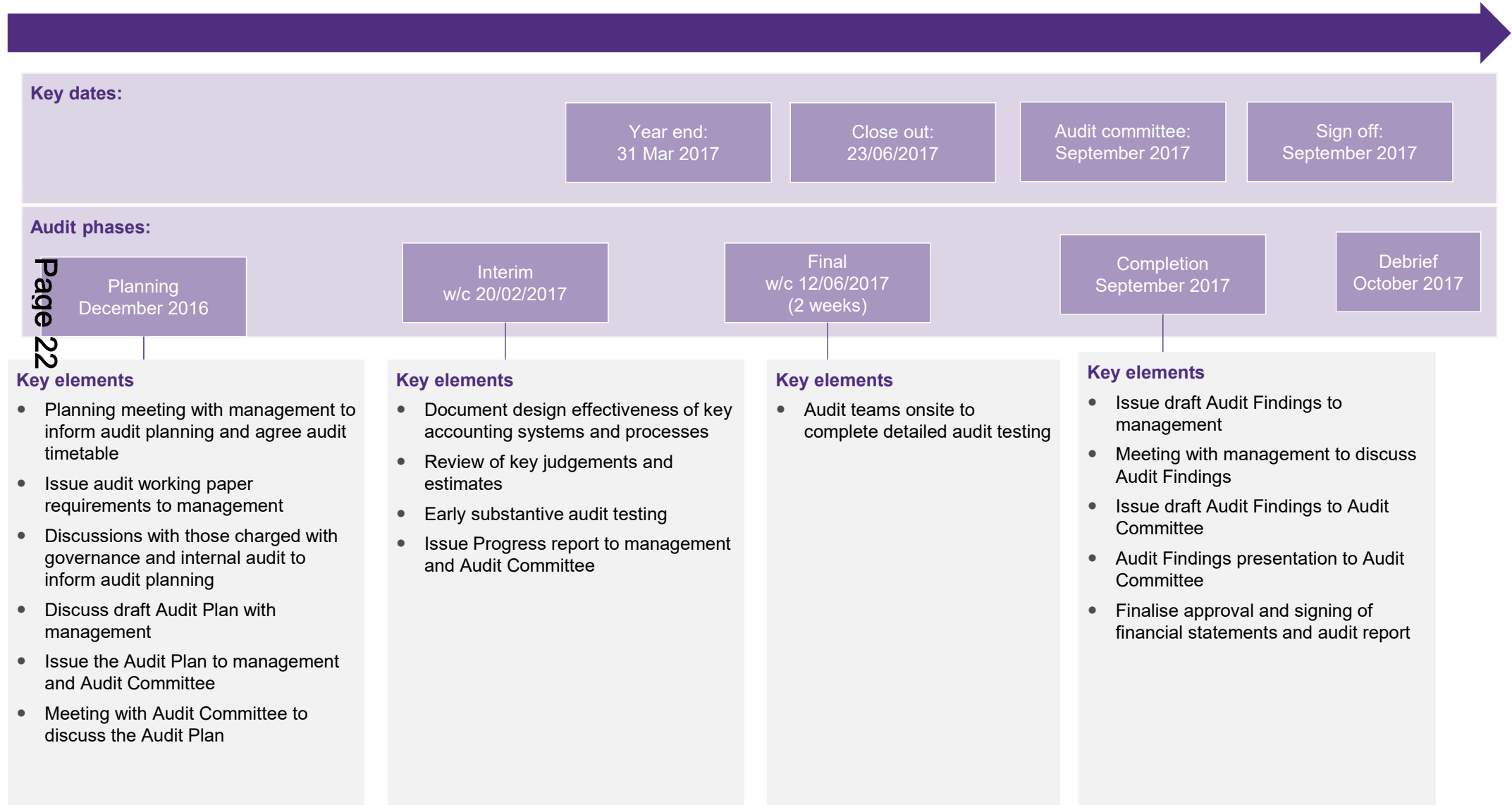
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls Page 20	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, namely investments, benefits payable, scheme contributions and member data.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Controls testing Page 21	<p>We performed testing of the operating effectiveness of key controls on those information systems where we had identified a reasonably possible risk of material misstatement to gain assurance about this and to reduce the amount of substantive testing performed on the financial statements. We tested these in 2014/15 and have rolled the results forward for 2016/17.</p>	Our work identified that the key controls tested on Scheme Contributions, Member Data and Benefits Payable systems were operating effectively; this was achieved by observing controls which were tested in 2014/15 to confirm that they remained in operation during the current period. We are therefore able to reduce the amount of substantive testing on these areas as a result.
Early substantive testing	<p>Early substantive testing has been undertaken in the following areas:</p> <ul style="list-style-type: none"> - Scheme contributions; a sample of contributions received for months 1 – 9 has been selected and distributed to member employers as required. Contributions will be agreed to supporting documentation once received. - Member data; a sample of new starters, leavers and members switching to deferred status during the year to month 9 has been agreed to supporting documentation. - Benefits payable; a sample of new pensions and lump sums for the period to month 9 has been tested by re-performing calculations and reviewing supporting documentation to confirm compliance with scheme rules and accuracy. 	Our work to date has not identified any issues which we wish to bring to your attention.

The audit cycle

The audit timeline



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Audit Fees

Fees

	£
Pension fund audit	23,427
IAS 19 fee variation	1,979
Total audit fees (excluding VAT)	25,406

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, and 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
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services are detailed on the following page, 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.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates

Independence and non-audit services

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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP individuals providing services to Shropshire County Pension Fund.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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 Fund.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Fund 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 Fund is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
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 issues 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	✓	✓



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Informing the audit risk assessment for Shropshire County Pension Fund

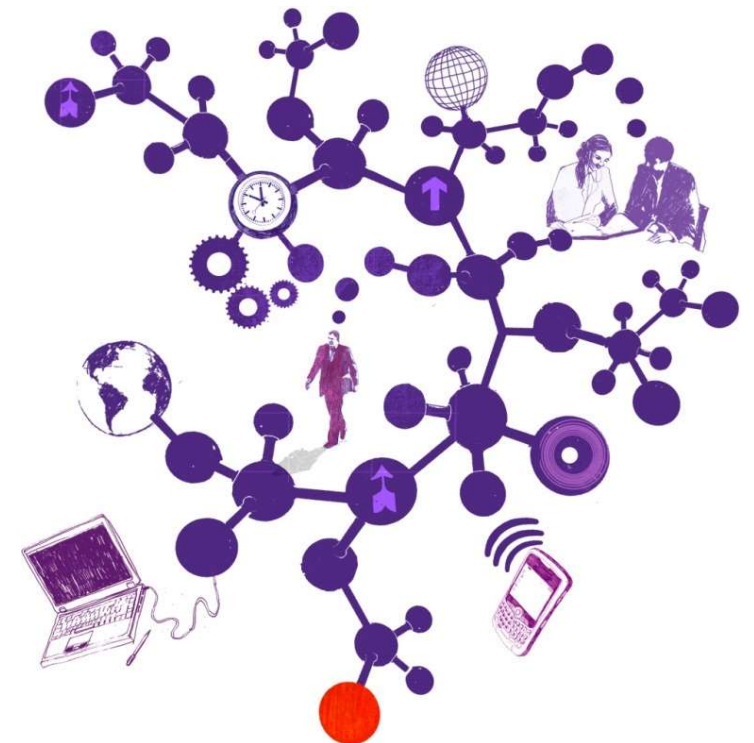
Year ended 31 March 2017

17 March 2017

John Gregory
Engagements Lead
T 07880 456 107
E john.gregory@uk.gt.com

Jim McLarnon
Manager
T 07827876040
E james.a.mclarnon@uk.gt.com

David Rowley
Executive
T 07798 561 062
E david.m.rowley@uk.gt.com



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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 County 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 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 Statement of Accounts and these accounts, including the notes to the accounts and the Actuarial Statement, are also included within the Shropshire Council Statement of Accounts. 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.</p> <p>The Pension Fund Accounts are 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>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 appropriate Administrators are requested to send their internal control reports to the Fund for review and exceptions noted. Internal Audit reviews the report produced by the Treasury Team and the managers 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 2016?	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 offers, 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 2016, or earlier with an on-going impact on the 2016/17 financial statements?	The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2016-17. The Chair of the Pension Fund Committee is not aware of any instances of non-compliance during 2016/17.
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 an 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 can continue 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		The Fund is currently considering how to manage the earlier closure timetable for the Pension Fund accounts and it is likely that actual September valuations will be used (updated for actual cashflows to March 17) to value Private Equity investments.
Hedge 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		Due to the earlier closedown of the accounts it is also likely that the valuations for both hedge fund managers will be based on February data updated for any March cashflow. The updated monthly valuations are usually received around the 20th business day and this date preclude the up to date valuation being included in the 2016/17 custodian reports.
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
- any 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">• 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.• Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.

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<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	
17 March 2017	
10 am	Public

FUNDING STRATEGY STATEMENT

Responsible Officer Justin Bridges
e-mail: justin.bridges@shropshire.gov.uk Tel: (01743) 252072

1. Summary

- 1.1 The report informs Members of the requirement to publish an updated Funding Strategy Statement. It sets out the Funding Strategy Statement which forms the basis of the 2016 Actuarial Valuation.

2. Recommendations

- 2.1 Members are asked to approve the Funding Strategy Statement at Appendix A.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Regular monitoring against published Funding Strategy Statement will give early warning of areas of difficulty.

4. Financial Implications

- 4.1 There are no financial implications to consider in this report as the value of the fund does not affect the resources of the Council.

5. Background

- 5.1 The requirement for LGPS administering authorities to prepare a Funding Strategy Statement was brought in under the Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004.
- 5.2 The Shropshire Fund first produced a Funding Strategy Statement in 2004. This Statement was revised in 2014 following the last actuarial valuation. The Statement outlines the basis on which the actuarial valuation of the Fund is conducted. It is now necessary to update the Funding Strategy Statement for the 2016 actuarial valuation.
- 5.3 The Funding Strategy Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

6. Purpose of the Funding Strategy Statement

- 6.1 The Funding Strategy Statement (FSS) aims to;-
- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
 - establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency"; and
 - to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.
- 6.2 The FSS applies to the Fund as a whole whilst at the same time recognising that there will be conflicting objectives which need to be reconciled. The FSS is written and implemented by the administering authority. The position of individual employers is reflected in the FSS but it is a single strategy for the Fund as a whole. In recognising the position of individual employers in a single strategy statement the FSS supports the long term sustainability of the pension fund.

7 Consultation and Publication

- 7.1 The preparation of the Statement has run in parallel with the 2016 actuarial valuation. In consultation with Mercer, officers have updated the FSS to incorporate the latest valuation assumptions. A copy of the Funding Strategy Statement (FSS) is attached at Appendix A.
- 7.2 In preparing the FSS the Administering Authority is required to consult with participating employers. Employers were updated on the content of the draft Funding Strategy Statement at the Employers Meeting on 10 November 2016. All employers were sent a draft of the updated FSS and asked for comments

back by the 8 December 2016. No comments were received back during the consultation process.

- 7.3 Members are asked to approve the updated FSS. Following approval copies will be distributed electronically to employers, investment managers and independent advisors. It will also be available on the website.

8. Monitoring and Review

- 8.1 The FSS must be reviewed formally at least every three years at the time of the triennial valuation. The FSS will be monitored in the inter-valuation period. It will be revised and published to reflect any material change in policy or to the Investment Strategy Statement. Scheme employers will be consulted regarding any changes.

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

Pensions Committee, 25 November 2016, Draft Funding Strategy Statement.

Cabinet Member

N/A

Local Member

N/A

Appendices

A – Funding Strategy Statement

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FUNDING STRATEGY STATEMENT

SHROPSHIRE COUNTY PENSION FUND

MARCH 2017

Shropshire Council

This Funding Strategy Statement has been prepared by Shropshire Council (the Administering Authority) to set out the funding strategy for the Shropshire County Pension Fund (the “Fund”), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

EXECUTIVE SUMMARY

Ensuring that the Shropshire County Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Shropshire Council). The Funding Strategy adopted by the Shropshire County Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Shropshire County Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Shropshire County Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.



SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs

being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS



As the solvency level of the Fund is 84% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may, in certain circumstances at the discretion of the Administering Authority, also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the contributions at the expected monetary levels from the preceding valuation (including any indexation in deficit payments over the recovery period). Full details are set out in this FSS.

The target recovery period for the Fund as a whole is 16 years at this valuation which is 3 years shorter than the target recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation the employer may, at the Administering Authority's discretion, be permitted to step-up their total contributions over a period of 3 years.



ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in an Appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets allowing for the long term strategy set out in its

Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.35% per annum and for determining the future service (“Primary”) contribution rates is 2.75% per annum.

Where warranted by an employer’s circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary’s bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer’s asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund’s practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer’s financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers’ covenants will be assessed and monitored objectively in a proportionate manner, and an employer’s ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers’ covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is determined by the Fund's admission policy. Examples of new employers include:

- Fund Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

4. Insurance arrangements

The Fund may consider whether ill health retirement costs can be insured either through a third party insurer or by setting up an internal captive insurance arrangement which pools these risks for eligible employers. If such an arrangement is implemented the relevant employer contribution rates will be adjusted accordingly.

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1

INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Shropshire County Pension Fund (the “Fund”), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
 - the guidance issued by CIPFA for this purpose; and
 - the Investment Strategy Statement (ISS) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Average Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

PRIMARY RATE

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

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PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

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AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

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SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.
- Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in a target recovery period of 16 years being adopted across all Fund employers.
- Individual employer contributions will be expressed and certified as two separate elements:
 - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
 - the **Secondary rate**: a schedule of lump sum monetary amounts over 2017/20 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.

- Where increases in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, if the Administering Authority agrees then the increase from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund.

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LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 84% covered by the current assets, with the funding deficit of 16% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 51%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:

Asset Class	Allocation	Control Ranges
Total Equity	52.0	47.0 – 57.0
Unconstrained Global Equity	24.0	20.0 – 28.0
UK Equity	8.0	5.5 – 10.5
Passive Equity (100% Hedged to GBP)	20.0	16.0 – 24.0
Total Alternatives	23.0	18.0 – 28.0
European (Incl UK) Property	5.0	n/a
Private Equity	5.0	n/a
Infrastructure	3.0	n/a
Fund of Hedge Funds	5.0	n/a
Multi-Strategy Hedge Funds	5.0	n/a
Total Bonds	25.0	20.0 – 30.0
Liability Driven Investment (LDI)	3.5	2.0-5.0
Unconstrained Bonds	21.5	17.5-25.5

The investment strategy and return expectations set out above equate to an overall best estimate average expected return of around 3.25% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

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IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the**

number of ill-health retirements. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond. Where there is a guarantor body in place, any outstanding funding deficit that is not recovered from the outgoing employer / bond will need to be paid by the guarantor (or the assets and liabilities for the outgoing employer will need to be subsumed by the guarantor). For cases where there is no guarantor or bond in place, any outstanding funding deficit that is not recovered from the outgoing employer will need to be subsumed by the Fund as a whole and spread across all employers.
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

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MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.35% per annum above CPI inflation i.e. a real return of 2.35% per annum, equating to a total discount rate of 4.55% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In the shorter term, the long term salary increase assumption has been replaced by an assumption of 1.0%

per annum for the period to 2019/20, reflecting expected short term pay restraint in the public sector over this period.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 10% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the

Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum, giving a total discount rate of 4.95% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR
CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE
“PRIMARY RATE”) FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.2% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.35% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	Base Table	Improvements	Adjustment (M / F)
Current pensioners:			
Normal health	S2PA	CMI_2015 [1.5%]	95% / 83%
Ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 3 years
Dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	115% / 93%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	113% / 96%
Current active / deferred:			
Active normal health	S2PA	CMI_2015 [1.5%]	95% / 83%
Active ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 4 years
Deferred	S2PA	CMI_2015 [1.5%]	95% / 83%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	113% / 96%

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum (either on annual basis or a one-off payment). This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Target Deficit Recovery Period	Derivation
Fund Employers	16 years	Determined by reducing the recovery period from the preceding valuation by at least 3 years and to ensure contributions do not reduce versus those expected from the existing plan.
Open Admitted Bodies	16 years	Determined by reducing the recovery period from the preceding valuation by at least 3 years and to ensure contributions do not reduce versus those expected from the existing plan.
Closed Employers	Minimum of 16 years and the future working lifetime of the membership	Determined by the future working life of the membership, and to ensure contributions do not reduce versus those expected from the existing plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in deficit payments over the recovery period).

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities: shares in a company which are bought and sold on a stock exchange.

Fund / Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time (“the recovery period”), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary’s Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer’s contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund’s investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	
17 March 2017	
10 am	Public

INVESTMENT STRATEGY STATEMENT

Responsible Officer Justin Bridges
e-mail: justin.bridges@shropshire.gov.uk Tel: (01743) 252072

1. Summary

- 1.1 The report informs Members of the requirement to publish an Investment Strategy Statement. It sets out the Investment Strategy Statement which requires approval prior to the 1 April 2017 as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

2. Recommendations

- 2.1 Members are asked approve the Investment Strategy Statement at Appendix A.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Regular monitoring against the published Investment Strategy Statement will give early warning of areas of difficulty.

4. Financial Implications

- 4.1 There are no financial implications to consider in this report.

5. Background

- 5.1 For many years Local Government Pension Funds have been required to maintain a Statement of Investment Principles (SIPs). In broad terms this document laid out the things that were considered by the Fund when making investment decisions and included the types of investments that could be held, how the various risks were taken into account and what the Fund's objectives were.
- 5.2 The requirement for LGPS administering authorities to prepare an Investment Strategy Statement was brought in under the new Local Government Pension Scheme (LGPS) Investment Regulations which became effective on 1 November 2016. These Regulations removed the restrictions on investments that were formerly in place for the LGPS and, in effect, allowed individual Funds complete discretion about where and how to invest.
- 5.3 The Regulations also introduced a requirement for administering authorities to formulate, publish and maintain an Investment Strategy Statement and this needs to be approved by 1 April 2017. The ISS is simply a more detailed version of the SIPs, with the SIPs being no longer necessary.
- 5.4 The Investment Strategy Statement has been prepared in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

6. Statutory Background

- 6.1 The Investment Strategy Statement (ISS) must include:-
- A requirement to invest money in a wide variety of investments;
 - The authority's assessment of the suitability of particular investments and types of investments;
 - The authority's approach to risk, including the ways in which risks are to be measured and managed;
 - The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - The authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 6.2 The pension fund should have flexibility to be able to take into account changes in the market in order to be able to enhance or protect returns.

Within Shropshire there is clearly defined governance around the setting of the strategic asset allocation for the Fund by the Pension Committee, with this strategy being implemented based on decisions agreed at Pension Committee. As a result it is considered preferable that the ISS is written in such a way that it does not require amendment unless there are fundamental changes to the Fund's approach.

- 6.3 Appendix A to this report is the Investment Strategy Statement which is based on a template produced by Aon Hewitt, the Fund's investment advisor, and covers all the necessary areas. Members are asked to approve the Investment Strategy Statement.

7 Publication

- 7.1 The Investment Strategy Statement will be published and distributed electronically to investment advisors, investment managers and scheme employers following approval. The ISS will also be available on the Fund website.

8. Monitoring and Review

- 8.1 The ISS is subject to review if there are any material changes to any aspects of the Fund.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee, November 2015, Statement of Investment Principles.
Cabinet Member N/A
Local Member N/A
Appendices A – Investment Strategy Statement

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1. Introduction

The Local Government Pension Scheme (“LGPS”), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

All LGPS funds in England and Wales are required to have an Investment Strategy Statement (“ISS” or “Statement”). Regulation 7 of The LGPS (Management and Investment of Funds) Regulations 2016 governs the requirements of this Statement. The Shropshire County Pension Fund (the “Fund”) has complied with these requirements.

Under the regulations the Secretary of State has the power to intervene in the investment function of an administering authority if the administering authority does not have regard to the Regulations, guidance or if other concerns are raised. This may include changing the ISS and, in the extreme, the transfer of investment powers to the Secretary of State or another nominated person.

Shropshire Council (the “Authority”) is the Administering Authority for the Fund.

This ISS has been prepared by the Fund’s Pension Committee (the “Committee”), following advice received from the Fund’s consultant, Aon Hewitt.

The document takes account of the Fund’s:

Approach to pooling

- the Authority’s approach to the pooling of investments, including the use of collective investment vehicles and shared services.

Asset allocation and risk

- to ensure that asset allocation strategies are sufficiently diversified;
- to include the Authority’s assessment of the suitability of asset classes;
- set out the maximum percentage of the total value of all investments that it will invest in in particular asset classes;
- to include the Authority’s approach to risk, the assessment of risks and how they are to be managed.

Policies regarding investments

- the Authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- the Authority’s policy on the exercise of the rights (including voting rights) attaching to investments.

The ISS will be reviewed every three years after the investment strategy has been reviewed and is confirmed as fit for purpose. In addition the ISS will be reviewed following changes to the investment strategy.

INVESTMENT STRATEGY STATEMENT – March 2017

A copy of this ISS will be made available on request to any interested party.

2. Governance

Shropshire Council has delegated responsibility for the management of the Fund to the Pension Committee. The Pension Committee has responsibility for establishing investment policy and ongoing implementation.

The Pension Committee is made up of nine members comprising both elected councillors and a non-voting employee and pensioner representative.

Members of the Pension Committee recognise that they have a fiduciary duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund Members (pensioners, employees and employers), other stakeholders being local Council Tax Payers.

Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The Members of the Pension Committee will ensure they receive training as and when deemed appropriate, to enable them to critically evaluate any advice they receive.

The Committee receives independent investment advice from the following sources:

- Roger Bartley - strategic and overall investment approach advice.
- Aon Hewitt (the Investment Consultant) - analysis and advice of a technical nature in relation to all investment related aspects of the Fund.

The Fund's Scheme Administrator 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.

Local Pensions Board

The role of the Local Pensions Board is to assist in the good governance of the scheme through the monitoring of adherence to statutory duties.

The Board consists of 2 employer and 2 member representatives.

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules.

Investment Principles

Details to the extent to which the Pension Committee complies with the six Myners principles and the extent to which management and investment arrangements at Shropshire comply (in accordance with the existing CIPFA guidance), and where not, what action is proposed in order to comply, are set out in Appendix A.

3. Approach to Pooling

The Fund is a participating member of the LGPS Central Pool. The proposed structure and basis on which the LGPS Central Pool (the “Pool”) will operate was set out in the July 2016 submission to Government.

Assets to be Invested in the Pool

The Fund’s intention is to invest its assets through the LGPS Central Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government.

It is expected that the majority of the Fund’s liquid assets will be transferred to the Pool on 1st April 2018, although it will take some time for the Pool to restructure the assets into appropriate sub-funds within the Pool. These sub-funds are likely to be set-up over a period of 2 – 3 years, with the timing being dependent on market conditions and operational circumstances, and until such time as the appropriate sub-fund is set up the assets transferred into the Pool will be overseen by LGPS Central on behalf of the Fund. It is not expected that any significant decisions (e.g. replacement of a manager) will be taken on the assets transferred over to the Pool without prior consultation with the Fund, unless it is part of the process that leads to the setting up of a sub-fund.

At present it is expected that any transitory cash will be held outside the Pool (but not strategic cash holdings), and it is possible that currency management will continue to be carried out at an individual fund level.

Structure and Governance of the LGPS Central Pool

The eight administering authorities of LGPS Central will all be equal shareholders of the company. A Shareholders’ Forum, comprising of one elected member from each administering authority, will fulfil the shareholders’ role in ensuring that the company is managed efficiently and effectively and in the best interests of the funds.

A Joint Committee, also comprising one elected member from each administering authority, will be formed that will hold the company to account on all investment-related issues. The Joint Committee will have no decision making powers and all actions that are felt to be appropriate will ultimately require approval at an individual fund level.

A Practitioners’ Advisory Forum, comprising of Officers of the administering authorities, will also be set up. The intention of this forum is to provide support and guidance to elected members on some of the practical issues, and to act as a conduit between the Joint Committee and the Committees of individual funds.

4. Asset allocation and risk

Strategic Asset Allocation

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 low and stable employers' contribution rates. Given the constraints on local authority spending, volatility in the employer's contribution rate is undesirable.

The Committee regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. The Committee retains direct responsibility for this decision which is made on the advice of their investment adviser with input from their Fund actuary and in consultation with the employers within the Fund.

The investment strategy will normally be reviewed every three years. In addition if there is a significant change in the capital markets, in the circumstances of the Fund or in governing legislation then an earlier review may be conducted.

The Committee formulates the investment strategy with a view to:

- the advisability of investing money in a wide variety of investments;
- the suitability of particular investments and types of investment;
- ensuring that asset allocation strategies are sufficiently diversified.

The Committee will consider a full range of investment opportunities including:

- quoted and unquoted equity;
- government and non-government bonds;
- Liability Driven Investment ("LDI");
- property and infrastructure;
- hedge funds and other alternative investments.

The Committee further considers the legality of all investments for compliance with the LGPS.

Investment Beliefs

The following investment beliefs are taken into account when agreeing an asset allocation policy:

- A long term approach to investment will deliver better returns.
- The long term nature of the Fund's liabilities is well suited to a long term approach to investment.
- Asset allocation policy is the most important driver of long term return.

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- Risk premiums exist for certain types of asset and taking advantage of these can help to improve investment returns.
- Markets can be inefficient, and sometimes 'mispriced' for long periods of time, and there is a place for both active and passive investment management.
- Diversification across investments with low correlation improves the risk/return profile, but over-diversification is both costly and adds little value.
- The Fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise as a result of market inefficiencies, and also flexible enough to protect against identifiable short-term risks when this is both practical and cost-effective.
- Responsible investment can enhance long term investment performance and investment managers will only be appointed if they integrate responsible investment into their decision-making processes.
- Investment management fees are important and should be minimised wherever possible, but it is ultimately the net return to investors (i.e. the return after all fees and costs) that is the most important factor.

Asset-liability Study and Expected Returns

The Committee determines the strategic asset allocation policy after considering projections of the Fund's assets and liabilities which are calculated by the Fund's investment adviser, in liaison with the Fund Actuary. This asset-liability study examines different combinations of assets to determine which combination will best meet the Fund's objectives.

The asset-liability study takes into account the particular liabilities of the Fund.

In addition to a full specification of the Fund's benefits, the study will make important assumptions about the behaviour of various asset classes (such as their expected return over long periods of time and the variability of those returns) and the liabilities in the future. In framing these assumptions, it is assumed that:

- Equities may be expected to outperform other asset classes over the long term, but the returns are more unpredictable over the short term. Gilts in turn can be expected to outperform cash deposits but with greater variability.
- Asset classes do not perform in the same way; some may go up in value while others are going down.
- The performance of certain asset classes (for example index-linked gilts) is more closely linked to the behaviour of inflation than others and so they represent a good match for liabilities linked to inflation.

Expected annualised returns are formulated for each asset class based on long term capital market assumptions, using ten year expected returns and volatilities. The returns and volatilities used for each asset class are shown in the table below, and represent the current 10 year annualised nominal return assumptions from Aon Hewitt at 31 December 2016 (as used in the Asset-Liability Modelling study carried out at that time).

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Asset Class	31 December 2016	
	Expected Return %	Volatility %
UK Equities	7.8%	19.2%
Global Unconstrained Equities	8.7%	21.2%
Global Passive Equities	7.1%	20.2%
Property	6.3%	12.7%
UK Index-Linked Gilts (Over 5 year duration)	0.5%	10.2%
Unconstrained Bonds	4.3%	5.2%
Global Fund of Hedge Funds	2.7%	9.3%
Global Private Equity	8.2%	27.6%
Infrastructure	5.7%	18.6%
Inflation (CPI)	2.1%	1.1%

Investment Strategy and Control Ranges

The Fund's strategic asset allocation was agreed by Pensions Committee in September 2015 as follows:

Asset Class	Allocation	Control Ranges
Total Equities	52.0	47.0 – 57.0
Unconstrained Global Equities	24.0	20.0 – 28.0
UK Equities	8.0	5.5 – 10.5
Passive Equities (100% Hedged to GBP)	20.0	16.0 – 24.0
Total Alternatives	23.0	18.0 – 28.0
European (Incl UK) Property	5.0	n/a
Private Equity	5.0	n/a
Infrastructure	3.0	n/a
Fund of Hedge Funds	5.0	n/a
Multi-Strategy Hedge Funds	5.0	n/a
Total Bonds	25.0	20.0 – 30.0
Liability Driven Investment (LDI)	3.5	2.0-5.0
Unconstrained Bonds	21.5	17.5-25.5

Note: the Fund is disinvesting from the multi-strategy hedge fund and temporarily increasing the allocation to fund of hedge funds and unconstrained bonds.

Rebalancing Policy

Officers will review the position of the Fund quarterly to ensure the assets are within the control ranges listed above, and will rebalance as appropriate.

Risk

The Committee regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, to minimise this risk so far as is possible. The Fund's Risk Register has more information.

In particular, in arriving at the investment strategy and the production of this Statement, the Committee have considered the following key risks:

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- asset-liability mismatch risk (asset allocation risk);
- the need to pay benefits when due (cash-flow risk);
- actions by the investment managers (investment risk);
- the failure of some investments (concentration risk);
- currency and counterparty risk;
- custody risk.

Asset Allocation Mismatch

The LGPS (the “Scheme”) is a defined benefit pension scheme which provides benefits related to the salary of members. The Scheme is a contributory defined benefit arrangement, with active members and employing authorities contributing to the Scheme.

The value of the Fund’s ongoing liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors relevant to the Fund’s investment policy are:

- the rate of return on assets;
- salary escalation and price inflation for active members;
- price inflation for deferred members;
- price inflation for pensioners.

In terms of magnitude, the Committee considers asset-liability mismatch risk to be one of the most important to control. Therefore, following each actuarial valuation, the Committee conducts an asset-liability review, which focuses on the impact of asset allocation on expected future funding levels. The Committee considers the results using advanced modelling techniques and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Committee to assess the probabilities of critical funding points associated with different investment strategies. Consideration is given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions etc.), to further assess the potential risks associated with a particular investment strategy.

Cash-flow Risk

The Fund remains open to new members and new accruals. Contributions are received from both active members and employers within the Fund. Active members contribute on a tiered system. Contributions from employers within the Fund are determined based on advice from the Fund Actuary based on the triennial valuation.

The majority of investments held within the Fund are quoted on major markets and may be realised quickly, if required. Certain asset classes, Hedge Funds, Private Equity, Property and Infrastructure are relatively illiquid and may take longer to realise, if required.

Investment Risk

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The Committee believe the use of active management within the Fund will increase the likelihood that the Fund will meet its objectives. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that asset class for taking on active manager risk.

Active manager risk is then diversified through the use of different investment managers and pooled funds.

The Committee also avails of passive management where they believe the extra risk and costs of active management would not benefit the Fund and to manage overall risk.

The Fund's assets are invested in portfolios managed by external investment managers shown in appendix B. They are benchmarked against the indicated indices. Based on expert advice (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool), investment managers may be replaced at any time and this list may not always be current.

The performance targets for the investment manager(s) are shown in appendix B. Shropshire Council recognises that these targets will not be met in all periods under consideration, but expects that they will be met in the vast majority of long-term periods under consideration.

Each investment manager appointed by the Committee (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool) is bound by the terms and conditions of an Investment Management Agreement where restrictions and targets are clearly documented, including a measure of risk. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and or policy documents.

Frequent monitoring of portfolio performance and exposure characteristics also aids in the ongoing risk management for the Fund (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool).

Concentration Risk

The split between asset classes has been set to ensure there isn't excessive exposure to any particular asset class or specific risk such as equities or credit risk.

To ensure that asset allocation is sufficiently diversified the Committee considers a full range of investment opportunities including those available through the LGPS Central Pool. In addition investment opportunities outside the pooling arrangements will be considered if they are not already or likely to be available through the Pool, and there are suitable resources to invest in and monitor the investment. These can include contracts related to financial futures or insurance.

Appropriate advice will be sought on alternative asset classes when setting the strategy and as opportunities arise.

Currency and Counterparty Risk

Passive equity investments are fully currency hedged by the investment manager.

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Some investment managers may take active currency positions based on their mandates.

The Committee has delegated responsibility for the counterparty risk to the investment manager(s) (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

Custody Risk

The Committee regards the safekeeping of the Fund's assets as of paramount importance and has appointed Northern Trust company as global custodian and record-keeper of the Fund's assets.

Stock Lending

The Fund reactivated its security lending policy with Northern Trust in February 2011, having temporarily paused the lending activity in the period after the collapse of Lehman Brothers. The collateral arrangements for the lending programme have been tightened on advice from Aon Hewitt, and the programme restarted.

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool).

Monitoring

The Committee monitors the strategy and its implementation as follows:

- The Committee receives, on a quarterly basis, a written report on the returns of the Fund and asset classes together with supporting analysis.
- The performance of the total Fund is also measured against the strategic benchmark, which is comprised of the asset class benchmarks weighted by the strategic allocations, and against agreed outperformance targets.
- The performance of the Fund in each asset class is measured against the relevant benchmark. A comparison against a universe of portfolios with similar mandates will also be made from time to time.

The Officers, in conjunction with the Investment Consultant, will regularly review the allocation of assets between the different asset classes.

Service Provider Monitoring

The Committee reviews from time to time the services provided by the investment adviser and other service providers as necessary to ensure that the services provided remain appropriate for the Fund.

Investment Manager Fees

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Investment management fees comprise an ad valorem or fixed base fee element and in some cases a performance based element. The ad valorem fee is calculated as a percentage of assets under management. Where applicable, the performance based element is calculated as a percentage of outperformance. The assessment period ranges from one to three years depending on the investment manager and the mandate. The exact details of the fee arrangements are specific to the investment manager and are as agreed in the respective Investment Manager Agreements or pooled fund documentation (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool).

5. Policies regarding investments

Social, Environmental and Corporate Governance Considerations

The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Shropshire Council is aware of the UK Stewardship Code and is working towards becoming signatories to the Stewardship Code (the “Code”). Although it has not yet formally signed up to the Code it aims to abide by the principles of the Code where appropriate.

The principles of the UK Stewardship Code are included in Appendix C for information.

BMO (formerly F&C) provides a responsible engagement overlay on the Fund’s UK equity portfolios. BMO enters into constructive discussions with companies on the Fund’s behalf to put to them the case for improved financial returns through better management of the negative impacts they might have on the environment and society in general.

In addition the Fund is a member of the Local Authority Pension Fund Forum which helps ensure governance is in line with current best practice.

The Exercise of the Rights Attaching to Investments

The Committee has delegated responsibility for the selection, retention and realisation of investments to the investment manager(s) (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

The Committee expects the investment managers to take steps to ensure that environmental, social and governance factors are adequately addressed in the selection, retention and realisation of investments as far as such factors may affect investment performance (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

The Committee supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its investment manager(s) who exercise its voting rights. Votes are cast by proxy. Investment manager(s) provide reports when any voting rights are exercised (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool). Only direct investments in traded equity shares carry such voting rights.

Appendix A

Myners Principles for Institutional Investment Decision Making

Principle	Comply or explain	Comment/Examples
<p>1. Effective decision making</p> <ul style="list-style-type: none"> Administrating authorities should ensure that: decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest 	Comply	<p>Pension Committee takes decisions relating to setting investment objectives and strategic asset allocation, appointment of investment managers. Pension Committee members, substitute members and Officers participate in an annual training day, attend educational seminars and receive occasional papers and presentations at committee meetings. The training requirements of new Pensions Committee members are addressed and appropriate training programmes made available, with a formal Training Programme being submitted to the Committee for consideration on an annual basis.</p>
<p>2. Clear Objectives</p> <ul style="list-style-type: none"> An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administrating authority and scheme employers, and these should be clearly communicated to advisors and investment managers 	Comply	<p>A Fund specific investment objective is set to maintain a funding level at, or close to 100% and within this, to endeavour to maintain low and stable employers contribution rates. As set out in the Funding Strategy Statement, the actuary takes account of a range of factors on the Fund's liabilities in setting contribution rates as part of the valuation process.</p> <p>Performance and risk parameters are specified in relation to relevant indices and appropriate time periods and are set out in investment mandates.</p>
<p>3. Risk and liabilities</p> <ul style="list-style-type: none"> In setting and reviewing their investment strategy administrating authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength 	Comply	<p>Asset/Liability review is carried out every three years and the actuary takes account of a range of factors on the Fund's liabilities as set out in the Fund's Funding Strategy Statement which addresses the issues of financial assumptions, longevity and strength of covenant. If required, the actuarial funding position can be reported to the Pensions Committee on a quarterly</p>

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<p>of the covenant for participating employers, the risk of their default and longevity risk</p>		<p>basis, using information provided by Aon Hewitt.</p>
<p>4. Performance assessment</p>		
<ul style="list-style-type: none"> ▪ Arrangements should be in place for formal measurement of performance of the investments, investment managers and advisors ▪ Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members 	<p>Comply</p>	<p>The Officers have an independent performance measurer in place. They also receive regular updates from Aon Hewitt regarding managers and the Officers meet regularly with their managers and advisors to review their performance. The Fund has recently assessed its effectiveness as a decision-making body and aims to spend more time on strategic level and asset allocation decisions compared to meeting managers going forwards.</p>
<p>5. Responsible ownership</p>		
<ul style="list-style-type: none"> ▪ Administrating authorities should ▪ Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents ▪ Include a statement of their policy on responsible ownership in the statement of investment principles ▪ Report periodically to scheme members on the discharge of such responsibilities 	<p>Comply</p>	<p>The Investment Strategy Statement includes a statement on responsible ownership.</p> <p>An independent advisor is appointed to engage with companies on socially responsible issues and voting at company meetings is effected through the Fund's investment managers.</p>
<p>6. Transparency and reporting</p>		
<ul style="list-style-type: none"> ▪ Administrating authorities should ▪ Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives ▪ Provide regular communication to scheme members in the form they consider most appropriate 	<p>Comply</p>	<p>A range of documents are published relating to the Fund's investment management and governance including the Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Communication Policy Statement and Annual report and accounts. These documents are available in full on the Fund's website and any amendments are published.</p> <p>Stakeholders are also invited to attend the annual meeting of the Fund.</p>

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Appendix B

Investment manager mandates

Investment Manager	Asset class	Benchmark	Target
Active portfolios			
PIMCO Europe Ltd	Unconstrained bonds	1 month Sterling LIBOR	+4% p.a.
BlackRock	Unconstrained bonds	3 month USD LIBOR	+ 4-6% p.a.
GAM	Unconstrained bonds	3 month Sterling LIBOR	+ 3-5% p.a.
BMO	Liability Driven Investment (LDI)	Hedge Benchmark (based on FTSE over 5 yrs Index Linked Gilt Index)	Outperform the benchmark
Majedie Asset Management	UK Equities	FTSE All Share	+2% p.a. over rolling 3 year periods
MFS Investment Management	Global Equities	MSCI World	+1% p.a. over rolling 3 year periods
Investec Asset Management	Global Equities	MSCI All Country World NDR	+ 3-5% p.a. over rolling 3 year periods
Harris Associates	Global Equities	MSCI World	+ 2-3% p.a. over 3 to 5 years
Harbour Vest Partners Limited	Private Equity Fund of Funds	Broad public equities index	+ 3-5% p.a.
Global Infrastructure Management	Infrastructure	n/a	RPI +5% p.a.
Aberdeen Property Investors	European (incl UK) Property	Composite of INREV VA Europe Index, vintage 2005 – 2008 and IPD UK All Balanced Funds Index	RPI +4% p.a.
Brevan Howard	Multi-Strategy Hedge Fund	3 month Sterling LIBOR	+6.0% p.a.
BlackRock	Fund of Hedge Funds	3 month Sterling LIBOR	+5.0% p.a.
Indexed (Passive) Portfolios			
Legal & General Investment Management	Global Equity	FTSE Developed World – GBP Currency Hedged	Match benchmark

Appendix C

Principles of the UK Stewardship Code

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.



<u>Committee and Date</u>
Pensions Committee
17 March 2017
10.00am

<u>Item</u>
Public

PENSION FUND TREASURY STRATEGY 2017/18

Responsible Officer Justin Bridges
e-mail: Justin.bridges@shropshire.gov.uk Tel: (01743) 252072

1. Summary

- 1.1 This report proposes the Pension Fund Treasury Strategy for 2017/18 for the small cash balances that the Administering 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 £1.7 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. Capita are still supportive of the Fund using these institutions with a maximum 12 month duration. For this reason 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.

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 as and when changes are required 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). It is recommended that UK institutions continue to be used unless the sovereign credit rating falls below A. 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 remain at the historically low level of 0.25% until June 2019 when it is forecast to rise to 0.50%. 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 2016/17, Pensions Committee 18 March 2016

Cabinet Member

N/A

Local Member

N/A

Appendices

A. Specified Investment Schedule

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

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits 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
Term deposits 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
Certificates of Deposit 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
Banks nationalised by high credit rated (sovereign rating) countries	No	Yes	Minimum Sovereign Rating AA-	No	In house	1 year
UK Nationalised & Part Nationalised banks	No	Yes	Yes – Minimum colour band green	No	In house	1 Year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
Government guarantee on all deposits by high credit rated (sovereign rating) countries	No	Yes	Yes – Minimum Sovereign Rating AA-	No	In house	1 year
Bonds issued by multilateral development banks (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
Gilt Funds and Bond Funds	No	Yes	AAA	NO	In House	1 year
Gilts : up to 1 year <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

Money Market Funds & Government Liquidity Funds (including CCLA Fund) & Enhanced Money Market Funds	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.
Treasury bills <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

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Monitoring of credit ratings:

All credit ratings will be monitored continuously. 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.

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<u>Committee and Date</u>
Pensions Committee
17 March 2017
10.00

<u>Item</u>
Public

SCHEDULE OF COMMITTEE AND OTHER MEETINGS 2017/18

Responsible Officer Justin Bridges

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

Tel: (01743)
252072

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.

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. 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 to 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 2/3 presentations each meeting although if there are more strategic decisions that need to be focussed on during the Committee meeting and managers have been performing well and there are no issues they may not be required to attend annually.

8. Annual Training Day

- 8.1 The 2017 Annual Training Day will be held on 18 July 2017 in the 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.

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:-

- **PLSA Investment Conference – May 2017.** *It is recommended that appropriate officers attend this conference*
- **LGC Investment Symposium – July 2017.** It is recommended that appropriate investment officers attend this conference.
- **LGC Public Sector Pension Funds Investment Seminar – September 2017.** 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.
- **Pension Administration Managers November 2017 –** It is recommended that Pension Administration officers attend this conference
- **LAPFF Annual Conference – December 2017.** It is proposed that an appropriate investment officer or Member of the Committee should represent the Fund at this conference.
- **LGC Investment Conference – March 2018.** *It is recommended that appropriate investment 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>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p>
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N/A

<p>Cabinet Member</p>

N/A

<p>Local Member</p>

N/A

<p>Appendices</p>

A - Schedule of Meetings 2017/18

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Pensions Committee – Schedule of Meetings 2017/18

(Committee meetings are in bold print)

Meeting date	Details (and location of other than Shirehall)	Manager / Adviser to present	Comments
15 - 17 May 2017	PLSA Investment Summit (Gloucestershire)		Officer Attendance
June 2017	Pension Board Trustee Conference		Pension Board Members/Members
23 June 2017	Quarterly Meeting (March 2017)-	GIP – Infrastructure GAM – Bonds BMO - LDI Aon – Training/Investment Strategy Review	
July 2017	LGC Pension Fund Symposium - Stratford		Officer Attendance
18 July 2017	Training Day (Shirehall)		Members / Substitute Members/ Pension Board Members/ officer attendance
22 Sept 2017	Quarterly Meeting (June 2017)	PIMCO (Global Bonds) Investec (Global Equities) Harris (Global Equities) Grant Thornton – 2016/17 Audit Aon – Training/Investment Strategy Review	
Sept 2017	LGC Investment Summit (South Wales)		Member / Officer attendance
9 October 2017	Employers Meeting – Council Chamber, Shirehall		
Nov 2017	Pensions Admin Managers Conference – Torquay		Pension Admin Officers
10 Nov 2017	Annual General Meeting – Council Chamber, Shirehall		
24 Nov 2017	Quarterly Meeting (Sept 2017)	HarbourVest (Private Equity) BlackRock (Hedge Funds)	
6 - 8 Dec 2017	LAPFF Annual Conference (Bournemouth)		Member / Officer attendance
March 2018	LGC Investment Seminar (Chester)		Officer Attendance
16 March 2018	Quarterly Meeting (Dec 2017)	Majedie (UK Equities) Aberdeen (Pan European Property) MFS (Global Equities) Grant Thornton – Audit Plan	

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<u>Committee and Date</u>
Pensions Committee
17 March 2017
10.00am

<u>Item</u>
Public

CORPORATE GOVERNANCE MONITORING

Responsible Officer Ed Roberts
e-mail: ed.roberts@shropshire.gov.uk

Tel: (01743) 252078

1. Summary

- 1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1st October 2016 to 31st December 2016.

2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report, Manager Voting Reports at Appendix A and BMO Global Asset Management 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. BMO Global 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 BMO Global Asset Management 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 25 November 2016

Cabinet Member

N/A

Local Member

N/A

Appendices

A. Manager Voting Activity Reports.

B. BMO Global Asset Management Responsible Engagement Overlay Reports.

VOTING POLICY



We introduced our own customised voting policy in the first quarter of 2014, 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

Please see below a breakdown of the meetings and resolutions which pertain to your portfolio.

SUMMARY	VOTES	PERCENT
Number of meetings voted at this period	26	
Number of resolutions	186	
Where we voted in line with Management	181	97.3
Where we have not voted in line with Management	5	2.7
Where we have voted against ISS's recommendation	12	6.5

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.

CATEGORY	AGAINST MANAGEMENT	AGAINST ISS	AGAINST POLICY
Board election & related proposals	0	2	1
Capitalisation	0	5	4
Miscellaneous	0	0	0
Remuneration	2	2	4
Reorg. and Mergers	0	0	0
Routine/Business	3	3	0
Total	5	12	9

Sources: Majedie, ISS (Institutional Shareholder Services)

VOTING BREAKDOWN

SECURITY NAME	MEETING DATE	MEETING TYPE	MAJEDIE VOTE	IN LINE WITH ISS
BERKELEY ENERGIA*	14 Dec 2016	EGM	Voted for all	No
BERKELEY ENERGIA*	22 Nov 2016	AGM	Voted for all	No
BHP BILLITON	20 Oct 2016	AGM	Voted for all	Yes
CHARLEMAGNE CAPITAL	02 Dec 2016	Court	Voted for all	Yes
CHARLES STANLEY GROUP	21 Dec 2016	EGM	Voted for all	Yes
COMMUNISIS	09 Nov 2016	EGM	Voted for all	Yes
CRESTON	16 Dec 2016	EGM	Voted for all	Yes
CRESTON	16 Dec 2016	Court	Voted for all	Yes
DIAMONDCORP*	16 Nov 2016	EGM	Voted for all	No
DOLPHIN CAPITAL INVESTORS*	19 Dec 2016	EGM	Against Resolution 1	Yes
DUNELM	22 Nov 2016	AGM	Voted for all	Yes
GRESHAM COMPUTING	17 Nov 2016	EGM	Voted for all	Yes
HAYS*	09 Nov 2016	AGM	Against Resolution 15	No
HOTEL CHOCOLAT	01 Dec 2016	AGM	Voted for all	Yes
MP EVANS	23 Dec 2016	EGM	Voted for all	Yes
NORSEMAN GOLD	30 Dec 2016	AGM	Voted for all	Yes
OPG POWER VENTURE*	14 Nov 2016	AGM	Voted for all	No
PLUS500*	15 Dec 2016	EGM	Against Resolutions 1, 2	Yes
RANK GROUP*	14 Oct 2016	AGM	Against Resolution 15	No
RPS GROUP	30 Nov 2016	EGM	Voted for all	Yes
SHANKS GROUP	24 Oct 2016	EGM	Voted for all	Yes
SPEYMILL DEUTSCHE	21 Dec 2016	AGM	Voted for all	Yes
SYLVANIA PLATINUM	18 Nov 2016	AGM	Voted for all	Yes
VERNALIS	01 Dec 2016	AGM	Voted for all	Yes
VOLUTION*	09 Dec 2016	AGM	Against Resolution 13	No
YOUGOV	07 Dec 2016	AGM	Voted for all	Yes

Source : ISS (Institutional Shareholder Services)

VOTING NOTES

- Berkeley Energia, AGM: On Resolution 1, the Fund Manager considered the ISS research and concluded that management are well paid for leading major change. We are supportive of what is a transformative strategy and are also keen to allow small companies more flexibility. On Resolution 2, the Fund Manager considered the ISS research and concluded that this director is not on too many boards, as his other responsibilities are on a much smaller scale, the listed responsibilities are for limited companies not public limited companies and to some extent are complementary. On Resolution 4, this issuance is below the criteria ISS set and within our tolerance for share issuance, therefore we chose to vote with management and against ISS.
- Berkeley Energia, EGM: On Resolutions 2 and 3, we voted for the item (share issuance). ISS recommended a vote against, however we considered that the company was prudently issuing shares to advance their first project through to production. We had clear evidence the Board respected shareholders' pre-emptive rights.
- DiamondCorp, EGM: ISS recommended a vote on Resolutions 4 and 5 against the issue of equity with pre-emptive rights, as the amount proposed (41.78%) exceeded the recommended amount (33%). We chose to vote in favour as we retain our shareholder rights should the issuance take place.
- Dolphin Capital Investors, EGM: We voted against Item 1 and in favour of Item 2 which permitted amendments to the distribution policy and amendments to the investment management agreement.
- Hays, AGM: On Resolution 15, Majedie voted against political donations and expenditure in line with our usual policy.
- OPG Power Ventures, AGM: On Resolution 4, although Arvind Gupta holds both the offices of CEO and Chairman, he is critical to the success of the company and we are supportive of the company's strategy. Therefore, we do not wish to vote against his appointment or convey less support than we actually have by an abstention. We do discuss with our smaller companies the need to separate these roles as the business develops and matures, as a matter of routine governance engagement.
- PLUS500, EGM: On resolution 1, relating to the CEO's employment agreement, and resolution 2, relating to the CFO's employment agreement, we note the company's explanation of the change in terms of employment but consider they should have been amended on appointment, not subsequently. We also agree with ISS's view that the vesting period is not in line with best practice as it is too short at under three years.
- The Rank Group, AGM: On Resolution 2, we considered that the salary level for the CEO was fair, as it was the lowest of the peer group. The disclosure of the bonus could have been improved and we resolved to feed this back, but in itself it was acceptable. The block awards again were sensible but were to be reviewed by the company. The bonus for Henry Birch was not out of line. There was scope to improve, but it was not so marked as to justify voting against. Therefore, we voted against ISS's recommendation and in favour.
- Volution Group, AGM: On Resolution 13, Majedie voted against political donations and expenditure in line with our usual policy.



Vote Summary Report

Date range covered: 10/01/2016 to 12/31/2016

Location(s): Massachusetts Financial Services

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

Sky plc

Meeting Date: 10/13/2016	Country: United Kingdom	Primary Security ID: G8212B105	Meeting ID: 1089073
Record Date: 10/11/2016	Meeting Type: Annual	Ticker: SKY	
Primary CUSIP: G15632105	Primary ISIN: GB0001411924	Primary SEDOL: 0141192	

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For
2	Approve Final Dividend	Mgmt	For	For
3	Approve Remuneration Report	Mgmt	For	For
4	Re-elect Jeremy Darroch as Director	Mgmt	For	For
5	Re-elect Andrew Griffith as Director	Mgmt	For	For
6	Re-elect Tracy Clarke as Director	Mgmt	For	For
7	Re-elect Martin Gilbert as Director	Mgmt	For	For
8	Re-elect Adine Grate as Director	Mgmt	For	For
9	Re-elect Matthieu Pigasse as Director	Mgmt	For	For
10	Re-elect Andy Sukawaty as Director	Mgmt	For	For
11	Re-elect James Murdoch as Director	Mgmt	For	Against
12	Re-elect Chase Carey as Director	Mgmt	For	For
13	Elect John Nallen as Director	Mgmt	For	For
14	Reappoint Deloitte LLP as Auditors and Authorise Their Remuneration	Mgmt	For	For
15	Authorise EU Political Donations and Expenditure	Mgmt	For	For
16	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For
17	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For
18	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For
19	Authorise the Company to Call General Meeting with Two Weeks' Notice	Mgmt	For	For

Vote Summary Report

Date range covered: 10/01/2016 to 12/31/2016

Location(s): Massachusetts Financial Services

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

St. Jude Medical, Inc.

Meeting Date: 10/26/2016	Country: USA	Primary Security ID: 790849103	Meeting ID: 1091707
Record Date: 09/16/2016	Meeting Type: Annual	Ticker: STJ	
Primary CUSIP: 790849103	Primary ISIN: US7908491035	Primary SEDOL: 2767381	

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Approve Merger Agreement	Mgmt	For	For
2	Advisory Vote on Golden Parachutes	Mgmt	For	Against
3a	Elect Director Stuart M. Essig	Mgmt	For	For
3b	Elect Director Barbara B. Hill	Mgmt	For	For
3c	Elect Director Michael A. Rocca	Mgmt	For	For
4	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	Against
5	Approve Omnibus Stock Plan	Mgmt	For	For
6	Declassify the Board of Directors	Mgmt	For	For
7	Provide Proxy Access Right	Mgmt	For	For
8	Ratify Ernst & Young LLP as Auditors	Mgmt	For	For
9	Adjourn Meeting	Mgmt	For	For
10	Reduce Supermajority Vote Requirement	SH	Against	For

Samsung Electronics Co. Ltd.

Meeting Date: 10/27/2016	Country: South Korea	Primary Security ID: Y74718100	Meeting ID: 1089608
Record Date: 09/28/2016	Meeting Type: Special	Ticker: A005930	
Primary CUSIP: Y74718100	Primary ISIN: KR7005930003	Primary SEDOL: 6771720	

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Approve Spin-Off Agreement	Mgmt	For	For
2	Elect Lee Jae-yong as Inside Director	Mgmt	For	For

Vote Summary Report

Date range covered: 10/01/2016 to 12/31/2016

Location(s): Massachusetts Financial Services

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

Oracle Corporation

Meeting Date: 11/16/2016	Country: USA	Primary Security ID: 68389X105	Meeting ID: 1091434
Record Date: 09/19/2016	Meeting Type: Annual	Ticker: ORCL	
Primary CUSIP: 68389X105	Primary ISIN: US68389X1054	Primary SEDOL: 2661568	

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1.1	Elect Director Jeffrey S. Berg	Mgmt	For	For
1.2	Elect Director H. Raymond Bingham	Mgmt	For	Withhold
1.3	Elect Director Michael J. Boskin	Mgmt	For	For
1.4	Elect Director Safra A. Catz	Mgmt	For	For
1.5	Elect Director Bruce R. Chizen	Mgmt	For	For
1.6	Elect Director George H. Conrades	Mgmt	For	Withhold
1.7	Elect Director Lawrence J. Ellison	Mgmt	For	For
1.8	Elect Director Hector Garcia-Molina	Mgmt	For	For
1.9	Elect Director Jeffrey O. Henley	Mgmt	For	For
1.10	Elect Director Mark V. Hurd	Mgmt	For	For
1.11	Elect Director Renee J. James	Mgmt	For	For
1.12	Elect Director Leon E. Panetta	Mgmt	For	For
1.13	Elect Director Naomi O. Seligman	Mgmt	For	Withhold
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	Against
3	Ratify Ernst & Young LLP as Auditors	Mgmt	For	For
4	Report on Lobbying Payments and Policy	SH	Against	For

Pernod Ricard

Meeting Date: 11/17/2016	Country: France	Primary Security ID: F72027109	Meeting ID: 1092498
Record Date: 11/14/2016	Meeting Type: Annual/Special	Ticker: RI	
Primary CUSIP: F72027109	Primary ISIN: FR0000120693	Primary SEDOL: 4682329	

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
	Ordinary Business	Mgmt		

Vote Summary Report

Date range covered: 10/01/2016 to 12/31/2016

Location(s): Massachusetts Financial Services

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

Pernod Ricard

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Approve Financial Statements and Statutory Reports	Mgmt	For	For
2	Approve Consolidated Financial Statements and Statutory Reports	Mgmt	For	For
3	Approve Allocation of Income and Dividends of EUR 1.88 per Share	Mgmt	For	For
4	Approve Auditors' Special Report on Related-Party Transactions	Mgmt	For	For
5	Approve Termination Package of Alexandre Ricard	Mgmt	For	For
6	Reelect Alexandre Ricard as Director	Mgmt	For	For
7	Reelect Pierre Pringuet as Director	Mgmt	For	For
8	Reelect Cesar Giron as Director	Mgmt	For	For
9	Reelect Wolfgang Colberg as Director	Mgmt	For	For
10	Ratify Appointment of Anne Lange as Director	Mgmt	For	For
11	Appoint KPMG as Auditor	Mgmt	For	For
12	Appoint Salustro Reydel as Alternate Auditor	Mgmt	For	For
13	Approve Remuneration of Directors in the Aggregate Amount of EUR 970,000	Mgmt	For	For
14	Advisory Vote on Compensation of CEO, Alexandre Ricard	Mgmt	For	For
15	Authorize Repurchase of Up to 10 Percent of Issued Share Capital	Mgmt	For	For
	Extraordinary Business	Mgmt		
16	Approve Restricted Stock Grants to Executives Partially Compensating Losses under the Previous Benefit Pension Scheme	Mgmt	For	For
17	Authorize Capital Issuances for Use in Employee Stock Purchase Plans	Mgmt	For	For
18	Authorize Filing of Required Documents/Other Formalities	Mgmt	For	For

Medtronic plc

Meeting Date: 12/09/2016

Country: Ireland

Primary Security ID: G5960L103

Meeting ID: 1082969

Record Date: 10/11/2016

Meeting Type: Annual

Ticker: MDT

Primary CUSIP: 585055106

Primary ISIN: IE008TN1Y115

Primary SEDOL: BTN1Y11

Vote Summary Report

Date range covered: 10/01/2016 to 12/31/2016

Location(s): Massachusetts Financial Services

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

Medtronic plc

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1a	Elect Director Richard H. Anderson	Mgmt	For	For
1b	Elect Director Craig Arnold	Mgmt	For	For
1c	Elect Director Scott C. Donnelly	Mgmt	For	For
1d	Elect Director Randall J. Hogan, III	Mgmt	For	For
1e	Elect Director Omar Ishrak	Mgmt	For	For
1f	Elect Director Shirley Ann Jackson	Mgmt	For	For
1g	Elect Director Michael O. Leavitt	Mgmt	For	For
1h	Elect Director James T. Lenehan	Mgmt	For	For
1i	Elect Director Elizabeth G. Nabel	Mgmt	For	For
1j	Elect Director Denise M. O'Leary	Mgmt	For	For
1k	Elect Director Kendall J. Powell	Mgmt	For	For
1l	Elect Director Robert C. Pozen	Mgmt	For	For
1m	Elect Director Preetha Reddy	Mgmt	For	For
2	Ratify PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For
4	Provide Proxy Access Right	Mgmt	For	For
5a	Amend Articles of Association	Mgmt	For	For
5b	Amend Memorandum of Association	Mgmt	For	For
6	Amend Articles to Clarify the Board's Sole Authority to Determine its Size Within the Fixed Limits	Mgmt	For	For

Cisco Systems, Inc.

Meeting Date: 12/12/2016

Country: USA

Primary Security ID: 17275R102

Meeting ID: 1096868

Record Date: 10/14/2016

Meeting Type: Annual

Ticker: CSCO

Primary CUSIP: 17275R102

Primary ISIN: US17275R1023

Primary SEDOL: 2198163

Vote Summary Report

Date range covered: 10/01/2016 to 12/31/2016

Location(s): Massachusetts Financial Services

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

Cisco Systems, Inc.

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1a	Elect Director Carol A. Bartz	Mgmt	For	For
1b	Elect Director M. Michele Burns	Mgmt	For	For
1c	Elect Director Michael D. Capellas	Mgmt	For	Against
1d	Elect Director John T. Chambers	Mgmt	For	For
1e	Elect Director Amy L. Chang	Mgmt	For	For
1f	Elect Director John L. Hennessy	Mgmt	For	For
1g	Elect Director Kristina M. Johnson	Mgmt	For	For
1h	Elect Director Roderick C. McGeary	Mgmt	For	For
1i	Elect Director Charles H. Robbins	Mgmt	For	For
1j	Elect Director Arun Sarin	Mgmt	For	For
1k	Elect Director Steven M. West	Mgmt	For	For
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For
3	Ratify PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For
4	Report on Lobbying Payments and Policy	SH	Against	For
5	Report on Arab and non-Arab Employees using EEO-1 Categories	SH	Against	Against
6	Establish Board Committee on Operations in Israeli Settlements	SH	Against	Against

Monsanto Company

Meeting Date: 12/13/2016

Country: USA

Primary Security ID: 61166W101

Meeting ID: 1100674

Record Date: 11/07/2016

Meeting Type: Special

Ticker: MON

Primary CUSIP: 61166W101

Primary ISIN: US61166W1018

Primary SEDOL: 2654320

Voting Policy: MFS

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

Vote Summary Report

Date range covered: 10/01/2016 to 12/31/2016

Location(s): Massachusetts Financial Services

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

Monsanto Company

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
3	Adjourn Meeting	Mgmt	For	For

AutoZone, Inc.

Meeting Date: 12/14/2016	Country: USA	Primary Security ID: 053332102	Meeting ID: 1096867
Record Date: 10/17/2016	Meeting Type: Annual	Ticker: AZO	
Primary CUSIP: 053332102	Primary ISIN: US0533321024	Primary SEDOL: 2065955	

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1.1	Elect Director Douglas H. Brooks	Mgmt	For	For
1.2	Elect Director Linda A. Goodspeed	Mgmt	For	For
1.3	Elect Director Sue E. Gove	Mgmt	For	For
1.4	Elect Director Earl G. Graves, Jr.	Mgmt	For	For
1.5	Elect Director Enderson Guimaraes	Mgmt	For	For
1.6	Elect Director J. R. Hyde, III	Mgmt	For	For
1.7	Elect Director D. Bryan Jordan	Mgmt	For	For
1.8	Elect Director W. Andrew McKenna	Mgmt	For	For
1.9	Elect Director George R. Mrkonjic, Jr.	Mgmt	For	For
1.10	Elect Director Luis P. Nieto	Mgmt	For	For
1.11	Elect Director William C. Rhodes, III	Mgmt	For	For
2	Ratify Ernst & Young LLP as Auditors	Mgmt	For	For
3	Amend Nonqualified Employee Stock Purchase Plan	Mgmt	For	For
4	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For

Vote Summary Report

Date range covered : 10/01/2016 to 12/31/2016

Institution Account(s): Investec Funds Series III - Global Dynamic

Lam Research Corporation**Meeting Date:** 11/09/2016**Country:** USA**Meeting Type:** Annual**Ticker:** LRCX

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1.1	Elect Director Martin B. Anstice	Mgmt	For	For	For	For
1.2	Elect Director Eric K. Brandt	Mgmt	For	For	For	For
1.3	Elect Director Michael R. Cannon	Mgmt	For	For	For	For
1.4	Elect Director Youssef A. El-Mansy	Mgmt	For	For	For	For
1.5	Elect Director Christine A. Heckart	Mgmt	For	For	For	For
1.6	Elect Director Catherine P. Lego	Mgmt	For	For	For	For
1.7	Elect Director Stephen G. Newberry	Mgmt	For	For	For	For
1.8	Elect Director Abhijit Y. Talwalkar	Mgmt	For	For	For	For
1.9	Elect Director Lih Shyng (Rick L.) Tsai	Mgmt	For	For	For	For
2.10	Elect Director John T. Dickson - Withdrawn Resolution	Mgmt				
2.11	Elect Director Gary B. Moore - Withdrawn Resolution	Mgmt				
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For	For
4	Ratify Ernst & Young LLP as Auditors	Mgmt	For	For	For	For

Lukoil PJSC**Meeting Date:** 12/05/2016**Country:** Russia**Meeting Type:** Special**Ticker:** LKOH

Vote Summary Report

Date range covered : 10/01/2016 to 12/31/2016

Institution Account(s): Investec Funds Series iii - Global Dynamic

Lukoil PJSC

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
Meeting for ADR Holders						
1	Approve Interim Dividends for First Nine Months of Fiscal 2016	Mgmt	For	For	For	For
2	Approve Remuneration of Directors	Mgmt	For	For	For	For

Medtronic plc

Meeting Date: 12/09/2016

Country: Ireland

Meeting Type: Annual

Ticker: MDT

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1a	Elect Director Richard H. Anderson	Mgmt	For	For	For	For
1b	Elect Director Craig Arnold	Mgmt	For	For	For	For
1c	Elect Director Scott C. Donnelly	Mgmt	For	For	For	For
1d	Elect Director Randall J. Hogan, III	Mgmt	For	For	For	For
1e	Elect Director Omar Ishrak	Mgmt	For	For	For	For
1f	Elect Director Shirley Ann Jackson	Mgmt	For	For	Refer	For
1g	Elect Director Michael O. Leavitt	Mgmt	For	For	For	For
1h	Elect Director James T. Lenehan	Mgmt	For	For	For	For

Vote Summary Report

Date range covered : 10/01/2016 to 12/31/2016

Institution Account(s): Investec Funds Series iii - Global Dynamic

Medtronic plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1i	Elect Director Elizabeth G. Nabel	Mgmt	For	For	For	For
1j	Elect Director Denise M. O'Leary	Mgmt	For	For	For	For
1k	Elect Director Kendall J. Powell	Mgmt	For	For	For	For
1l	Elect Director Robert C. Pozen	Mgmt	For	For	Refer	For
1m	Elect Director Preetha Reddy	Mgmt	For	For	For	For
2	Ratify PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For	For	For
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For	For
4	Provide Proxy Access Right	Mgmt	For	For	For	For
5a	Amend Articles of Association	Mgmt	For	For	For	For
5b	Amend Memorandum of Association	Mgmt	For	For	For	For
6	Amend Articles to Clarify the Board's Sole Authority to Determine its Size Within the Fixed Limits	Mgmt	For	For	For	For

Cisco Systems, Inc.

Meeting Date: 12/12/2016

Country: USA

Meeting Type: Annual

Ticker: CSCO

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1a	Elect Director Carol A. Bartz	Mgmt	For	For	Against	For

Vote Summary Report

Date range covered : 10/01/2016 to 12/31/2016

Institution Account(s): Investec Funds Series III - Global Dynamic

Cisco Systems, Inc.

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1b	Elect Director M. Michele Burns	Mgmt	For	For	Against	For
1c	Elect Director Michael D. Cappelas	Mgmt	For	For	Against	For
1d	Elect Director John T. Chambers	Mgmt	For	For	For	For
1e	Elect Director Amy L. Chang	Mgmt	For	For	For	For
1f	Elect Director John L. Hennessy	Mgmt	For	For	Against	For
1g	Elect Director Kristina M. Johnson	Mgmt	For	For	For	For
1h	Elect Director Roderick C. McGeary	Mgmt	For	For	Against	For
1i	Elect Director Charles H. Robbins	Mgmt	For	For	For	For
1j	Elect Director Arun Sarin	Mgmt	For	For	For	For
1k	Elect Director Steven M. West	Mgmt	For	For	Against	For
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For	For
3	Ratify PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For	For	For
4	Report on Lobbying Payments and Policy	SH	Against	For	Refer	For
5	Report on Arab and non-Arab Employees using EEO-1 Categories	SH	Against	Against	Refer	Against
6	Establish Board Committee on Operations in Israeli Settlements	SH	Against	Against	Refer	Against

Vote Summary Report

Date range covered: 10/01/2016 to 12/31/2016

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

Samsung Electronics Co. Ltd.

Meeting Date: 10/27/2016	Country: South Korea	Primary Security ID: Y74718100
Record Date: 09/28/2016	Meeting Type: Special	Ticker: A005930
Primary CUSIP: Y74718100	Primary ISIN: KR7005930003	Primary SEDOL: 6771720
Shares Voted: 2,400		

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Vote Instruction
1	Approve Spin-Off Agreement	Mgmt	For	For	For
2	Elect Lee Jae-yong as Inside Director	Mgmt	For	For	For

Microsoft Corporation

Meeting Date: 11/30/2016	Country: USA	Primary Security ID: 594918104
Record Date: 09/30/2016	Meeting Type: Annual	Ticker: MSFT
Primary CUSIP: 594918104	Primary ISIN: US5949181045	Primary SEDOL: 2588173
Shares Voted: 30,500		

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Vote Instruction
1.1	Elect Director William H. Gates, III	Mgmt	For	For	For
1.2	Elect Director Teri L. List-Stoll	Mgmt	For	For	For
1.3	Elect Director G. Mason Morfit	Mgmt	For	For	For
1.4	Elect Director Satya Nadella	Mgmt	For	For	For
1.5	Elect Director Charles H. Noski	Mgmt	For	For	For
1.6	Elect Director Helmut Panke	Mgmt	For	For	For
1.7	Elect Director Sandra E. Peterson	Mgmt	For	For	For
1.8	Elect Director Charles W. Scharf	Mgmt	For	For	For
1.9	Elect Director John W. Stanton	Mgmt	For	For	For
1.10	Elect Director John W. Thompson	Mgmt	For	For	For
1.11	Elect Director Padmasree Warrior	Mgmt	For	For	For
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For
3	Ratify Deloitte & Touche LLP as Auditors	Mgmt	For	For	For
4	Amend Right to Call Special Meeting	Mgmt	For	For	For
5	Amend Omnibus Stock Plan	Mgmt	For	For	For

Vote Summary Report

Date range covered: 10/01/2016 to 12/31/2016

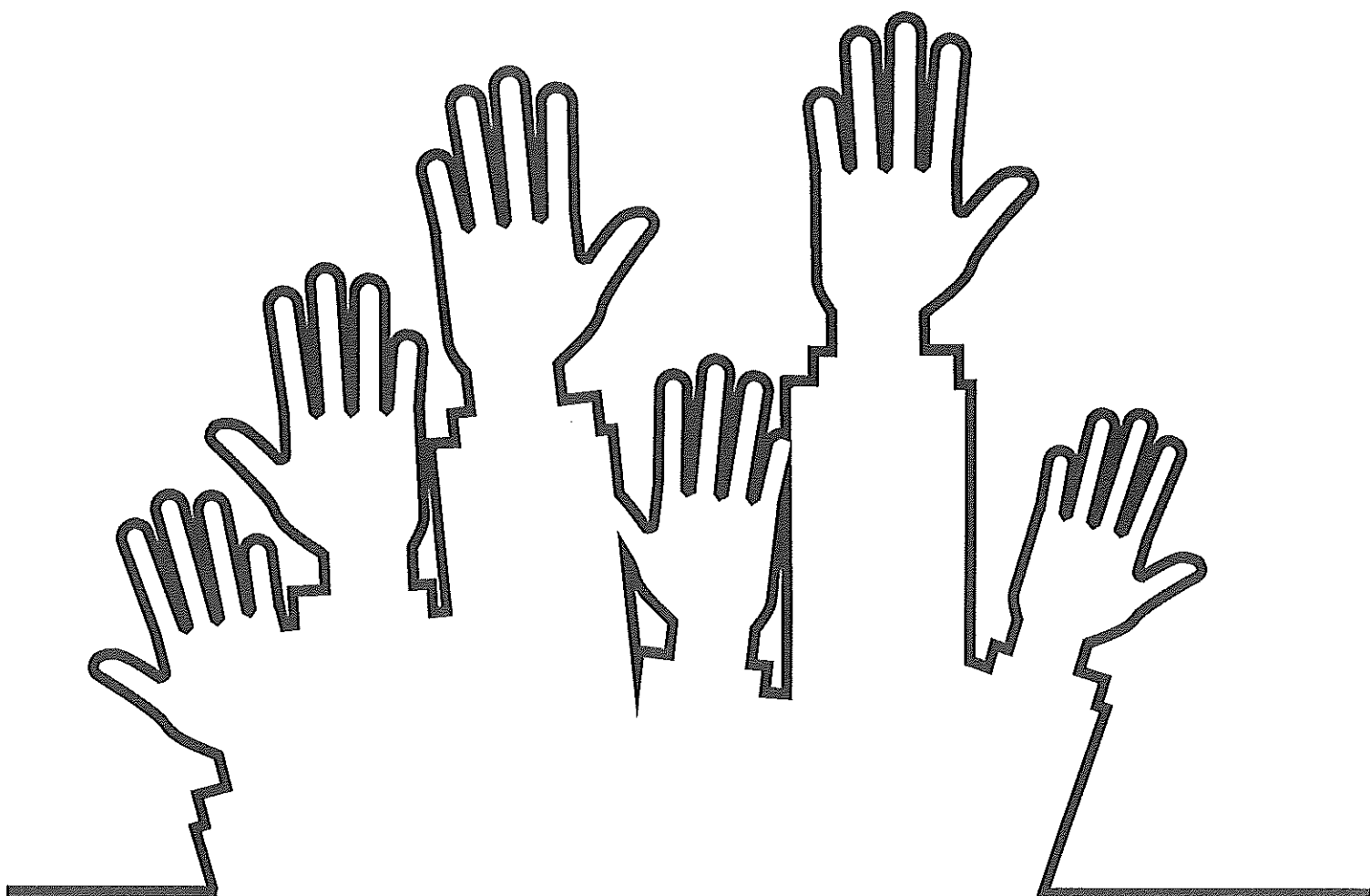
Institution Account(s): 5984 -Shropshire County Pension Fund

Microsoft Corporation

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Vote Instruction
6	Proxy Access	SH	Against	For	Against

Corporate governance and active ownership

Q4 2016 ESG impact report



This is not a consumer advertisement.
It is intended for investment professionals
and should not be relied upon by private
investors or any other persons.

Our mission

To use our influence to ensure that:

Companies integrate **environmental, social and governance (ESG)** factors into their culture and everyday thinking.



Markets and regulators create an **environment** in which **good management** of ESG factors is valued and supported.

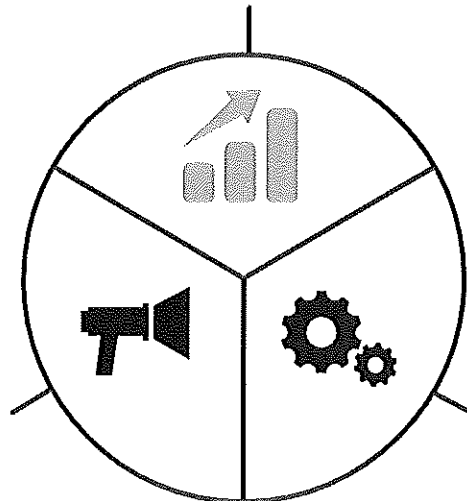


Our focus



Creating sustainable value: Ensuring that boards and management are best equipped to create resilient and long-term growth.

We want to safeguard and grow our clients' assets by ensuring that companies are well positioned for sustainable growth. To be successful in the long term, companies need to have people at the top who are able to deliver sustainable value. We engage directly and collaboratively with them to highlight key challenges and opportunities in their sector and support strategies that can deliver long-term success.



Influencing the debate: Identifying and engaging on key themes and emerging governance topics.

We use our scale to influence markets and the regulatory environment to ensure that issues impacting the value of our clients' investments are recognised and appropriately managed. We identify key themes and emerging governance topics so that we can understand these risks and opportunities and react accordingly. This includes working with governments, regulators and other decision-makers to promote a certain course of action and often collaborating with others to effect change.



Improving companies: Protecting and enhancing our clients' assets by supporting change and holding management accountable for their decisions.

As stewards of our clients' assets, we believe that real change is best achieved through being an engaged and active owner. In doing so, our investment process includes an assessment of how well companies incorporate relevant environmental, social and governance factors into their everyday thinking. We act on our analysis and engage with companies to improve their performance to protect client assets. Voting is also an important tool, which we use to hold management to account.

Latest news and developments

Q4 2016

Future World Fund

In November 2016, LGIM launched the FutureWorld Fund, a multi-factor global equities index fund that incorporates a climate 'tilt' to address the investment risks associated with climate change. HSBC Bank UK Pension Scheme, one of the largest corporate pension funds, has selected this fund for its equity default option, worth £1.85 billion, in its DC scheme. In doing so, it becomes one of the first schemes to adopt a multi-factor investment strategy incorporating a degree of climate change protection as its default fund. Legal & General will also be investing its own capital in to the fund (see link <http://update.lgim.com/futurefund>).

The Future World Fund incorporates LGIM's **Climate Impact Pledge**, in which LGIM commits to engage with the world's largest companies that will need to adapt their business models and drive innovation in order to meet global climate change goals.

LGIM has identified the largest companies in six key sectors that it believes are pivotal to shift the market to a low carbon economy. Across all of our holdings, we will vote against the Chair of those companies who fail to meet LGIM's minimum criteria after an engagement period and in the FutureWorld Fund will divest from these same companies.

Business Innovation and Skills (BIS) Corporate Governance Inquiry

LGIM responded to a Corporate Governance Inquiry announced by the BIS Select Committee in September. The purpose of the inquiry was to investigate the failures in UK Corporate Governance following the collapse of BHS and impact on its pension fund and the failures at Sports Direct. Views on remedies for improvement were also sought by the Committee.

LGIM submitted evidence on the current state of Corporate Governance in the UK and also provided constructive feedback on practical remedies to improve the integrity of the market. This includes increased scrutiny on remuneration levels and greater accountability of directors to their employees and stakeholders.

Stewardship Code Statement

LGIM was pleased to have its UK Stewardship Code Statement assessed as Tier 1 by the Financial Reporting Council as part of its review into reporting of the Stewardship Code. This means we have provided a good quality and transparent description of our approach to stewardship and explanations where an alternative approach was necessary. LGIM's updated UK Stewardship Code Statement can be found here: (link http://www.lgim.com/library/capabilities/UK_Stewardship_Code.pdf).

Institute of Chartered Secretaries and Administrators (ICSA) Award

For the second consecutive year, LGIM's Corporate Governance team received the ICSA award of 'Best Investor Engagement' for 2016. The award aims to reward the investor who has, according to the judgment of FTSE 350 company secretaries, provided the most constructive company engagement during the year.

Corporate Governance in Japan

We attended the Asian Corporate Governance Association annual conference in Tokyo. There has been continuing progress in governance standards in Japan, especially on board independence. In 2016, 78% of companies in Japan had at least two independent directors on the board (up from 21.5% in 2014). We also submitted a collaborative response to the Tokyo Stock Exchange consultation on corporate reporting reform.

Marrakech Climate Change Conference

LGIM attended the COP22 in Marrakech for climate talks, following the successful agreement in Paris which came into force on 4 November 2016. The discussions were mainly on the financing of the low carbon transition now that the global goal has been crystallised.

We also presented the Future World Fund and Climate Impact Pledge concept to many different ministerial audiences, to showcase the ways in which this transition can be embraced by pensions schemes.

External Presentations and Events

In October, LGIM presented at the LGC Investment Seminar in Scotland. We discussed how positive engagement can enhance value for LGPS funds and explained how it creates sustainable value, influences the debate and improves companies.

We also presented at an Investment Seminar in Dublin. We explained why ESG matters in the changing investment landscape and presented our engagement process and talked about the new Climate Impact Pledge.

Lastly, in December, we presented at the Italian Corporate Governance Conference on shareholder involvement in the appointment of directors to the board.

For more information regarding voting statistics and engagement, please go to: www.lgim.com/cgupdate

POLICY AND PRACTICE

We aim to increase 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.lgim.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 votes in the UK, North American and Japan markets are publicly disclosed on our website along with our voting policies.

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

Regional updates

UK

KEY COMPANY ENGAGEMENTS

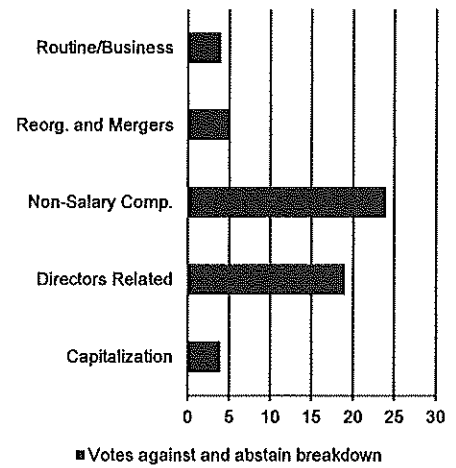
SVG Capital plc	<p>What is the issue: SVG Capital (SVG) is a FTSE 250 investment trust and the third largest private equity trust listed in the UK. Along with most other investment trusts operating in the sector there was a large discount between the value of the assets and the value of the investment trust. Despite various positive actions taken by the board the valuation discount was relatively persistent. In addition, a major shareholder of SVG, who holds 26% of the share capital, had been voting against the management and board of SVG for over four years.</p> <p>Why is it an issue: A persistent discounted share price affects the value of the underlying assets and means that shareholders do not see the full benefit of their investment until the discount closes or assets are liquidated with cash being returned to shareholders. Additionally, we consider that participants in the private equity listed investment trust sector need scale in order to invest, obtain the best terms for transactions and find partners for larger projects. Having a dissenting major shareholder constrained their ability to issue new capital and expand.</p> <p>What did LGIM do? At the beginning of September 2016, LGIM was told confidential information and was informed of a hostile bid for SVG launched by Harbourvest, a private equity company. SVG's shares were priced at £5.68 compared to the initial offer by Harbourvest of £6.50.</p> <p>Once the Harbourvest bid was made public, shareholders of SVG Capital had four weeks to accept or reject the offer. During this time we held two meetings with the Chairman and Senior Independent Director of SVG, and exchanged a number of e-mails, encouraging them to seek alternative solutions and offers to increase shareholder value. Over the next four weeks SVG received two offers from two other parties at a higher price to the initial Harbourvest offer. At the beginning of October, Harbourvest submitted an increased revised offer of £7.15 per share.</p> <p>The outcome? At SVG's General Meeting, held on 5th December 2016, LGIM voted in favour of the revised offer by Harbourvest which will deliver £7.15 per share to shareholders. This is at a premium to the value of the underlying assets and compares with the original share price of £5.68 prior to the bid being made. Therefore, significant value has been realised for all shareholders, including LGIM clients.</p>
Market cap £760.4m	
Private Equity Trust	

SABMiller plc	<p>What is the issue: SABMiller received a takeover offer from AB InBev, which first offered £42.15 per share for the company in October 2015.</p> <p>The size of the deal was very significant, representing the fourth largest merger of all time. Additionally, the two major shareholders had a bespoke arrangement under the terms of the deal. Minority shareholders were concerned about the offer price and the level of involvement of the two major shareholders in the deal.</p> <p>What did LGIM do? As a top ten shareholder and trusted long-term investor, we have held extensive dialogue with the company over many years on a wide range of topics.</p> <p>Immediately post the initial offer by ABInbev we held sensitive and discrete discussions with the Chairman on the bid process and price. Additionally we consulted major shareholders on both sides of the bid before delivering one coherent message: remain independent unless the price improves. At this point, SABMiller's board accepted an increased bid of £44 per share.</p> <p>In July 2016, we spoke with the activist investors, the Chairman and advisors and then lent our support to the Board to push for an increase in the offer due to the significant currency moves.</p> <p>The outcome? The final offer was increased to £45 per share.</p> <p>Shareholders including LGIM chose to support the terms of the deal at the company's General Meeting held at the end of September 2016, yielding significant extra value for investors and LGIM clients.</p>
Market cap £73.01bn	
Beverages	

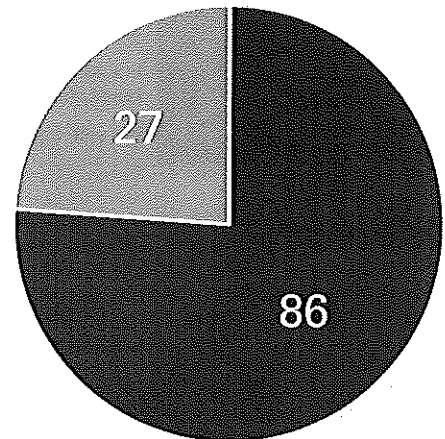
Q4 2016 VOTING SUMMARY UK

Proposal category	UK		
	For	Against	Abstain
Anti-takeover Related	43		
Capitalisation	277	4	
Directors Related	420	19	
Non-Salary Comp.	101	24	
Reorg. and Mergers	22	5	
Routine/Business	335	4	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	1198	56	
Total resolutions	1254		
No. AGMs	82		
No. EGMs	36		
No. of companies voted	113		
No. of companies where voted against/abstain at least one resolution	27		
% no. of companies where at least one vote against	24		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



- No. of companies supported
- No. of companies where voted against/abstain at least one resolution

'LGIM voted against at least one resolution at 24% of UK companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates

Europe

KEY COMPANY ENGAGEMENTS

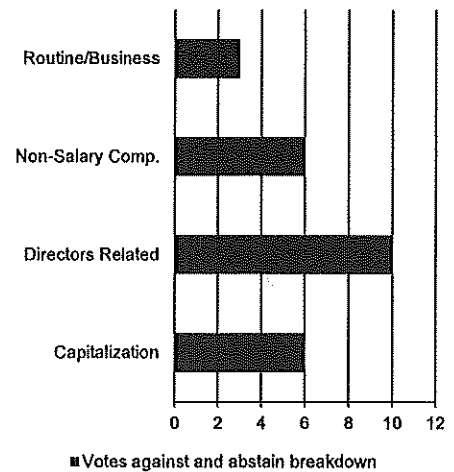
Repsol SA	<p>What is the issue: The company operates in tough industry conditions due to the low oil price and is exposed to climate change risks. This includes a reduction in the available resources that can be extracted economically and the strengthening of climate regulation, which constitutes a financial and reputational risk for the business.</p> <p>Why is it an issue: In light of international commitments under the COP21 Paris Agreement, which aims to limit the increase in global temperatures below 2 degrees above pre-industrial levels, and the overall focus of the international community on climate change, investors need assurance that the business models of companies they invest in are robust and viable over the long term.</p> <p>What did LGIM do? We have been engaging with Repsol on climate change issues for the last two years. In 2015 we pushed for improved transparency in R&D disclosure on climate change.</p> <p>Most recently in November we attended a Sustainability Day conference organised by the company with other investors. This was the opportunity to get a better understanding of the company's long-term strategy for a low carbon economy and directly ask questions to Board members and company directors.</p> <p>Furthermore, we had detailed engagement with seven company representatives the next day to discuss the integration of sustainability considerations into the company's strategy and culture.</p> <p>This meeting was also the opportunity to raise broader governance topics such as succession planning and board diversity, and give our views.</p> <p>The outcome? Further to our past engagement, the company provided us with detailed information on their innovation and technological development programmes as part of their initiatives to tackle climate change.</p> <p>In addition, the company assured us its sustainability strategy is embedded in its overall strategy and made clear commitments in terms of progress towards a low carbon emissions future.</p> <p>We will monitor progress and continue to engage with the company on the subject.</p>
Market cap €20.45bn	
Oil and gas	

Schneider Electric	<p>What is the issue: We first met with the company in April 2016 and had a follow up meeting with the Lead Independent Director (LID) in October to hear directly from a Board Director regarding Corporate Governance arrangements and Board composition. In addition, issues were raised at the last AGM regarding remuneration.</p> <p>Why is it an issue: It is important to ensure that the Board has proper oversight to ensure that it creates long-term sustainable shareholder value. Furthermore, the Company has a joint Chair/CEO which is not in line with best practice as power in the company is concentrated in the hands of one individual. Lastly, remuneration needs to be linked with the strategy in order to incentivise management.</p> <p>What did LGIM do? Whilst we supported the company at the AGM we met the LID who explained how the Board concentrates on the long-term vision of the business and how research and development plays an important part in meeting customer demands in the future. Examples were given around how the company embraces technology including looking at solar power, energy storage such as batteries, smart solutions and the process of cross-pollination between different divisions in the company to promote learning and growth.</p> <p>In addition, in terms of the governance structure, the LID explained how risks were mitigated around the power of the joint Chair/CEO and how succession planning on the Board would be addressed.</p> <p>The outcome? The LID committed to better reporting on how the Remuneration Committee sets targets on how pay is linked to the long-term strategy and stated that they will be stretching beyond market expectations to challenge management. The LID also explained the possibility of a further appointment to the Board to enhance skills and experience where they currently lack.</p>
Market cap €39.32bn	
Industrials	

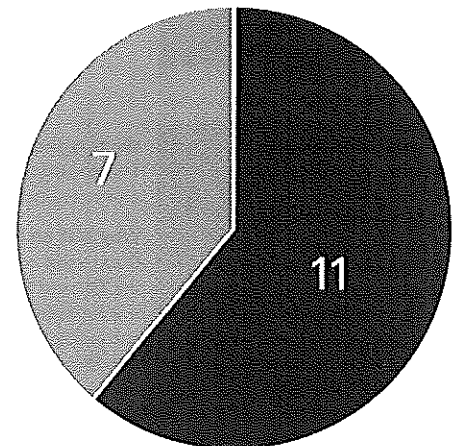
Q4 2016 VOTING SUMMARY EUROPE

Proposal category	EUROPE		
	For	Against	Abstain
Anti-takeover Related	1		
Capitalisation	13	6	
Directors Related	63	10	
Non-Salary Comp.	15	6	
Reorg. and Mergers	10		
Routine/Business	63	3	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related	1		
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	166	25	
Total resolutions	191		
No. AGMs	8		
No. EGMs	10		
No. of companies voted	18		
No. of companies where voted against/abstain at least one resolution	7		
% no. of companies where at least one vote against	39		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



- No. of companies supported
- No. of companies where voted against/abstain at least one resolution

'LGIM voted against at least one resolution at 39% of European companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates

North America

KEY COMPANY ENGAGEMENTS

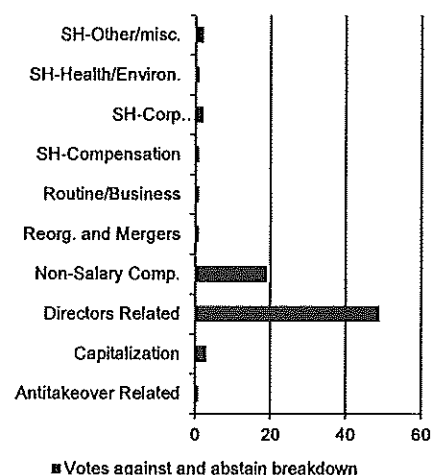
Wells Fargo	<p>What is the issue: The company was involved in an internal cross-selling scandal involving over 5,000 employees who were found to be miss-selling products to existing customers and setting up additional fee paying accounts without customer permission. The CEO was questioned by the Senate Banking Committee and had approximately \$40m of his pay clawed back. However, he still remained in office whilst some offending employees were dismissed.</p> <p>Why is it an issue: The CEO is ultimately responsible and accountable for the company and its employees. LGIM believed that the CEO should have resigned for the clear failure of oversight.</p> <p>What did LGIM do? LGIM has been engaging with the company for the last two years, primarily with the board's Lead Director. Following the cross-selling scandal being reported, we spoke privately to the company and the Lead Director to request that the CEO step down. LGIM also requested that the roles of Chair and CEO become separate and that this structure is implemented into the company bylaws going forward rather than just as an emergency succession process. LGIM had voted against the CEO in his position as non-executive director on two other US boards due to overboarding and our concerns with his ability to commit enough time to all three roles.</p> <p>The outcome? Soon after our engagement we were informed that the CEO stepped down and that the Lead Director had taken on the role as board Chair. The CEO also stepped down from his non-executive roles on the two other US boards. Shortly after this announcement, the company also informed us that changes had been made to the company bylaws to require that the CEO and Chair roles be separate effective immediately. We support these changes which we believe will strengthen the company's corporate governance structure.</p>
Market cap \$261bn	
Banks	

Exxon Mobil	<p>What is the issue: The company has consistently failed to acknowledge support of the Paris Agreement on climate change and to report on its portfolio resilience/stress testing in a 2 degree scenario.</p> <p>Why is it an issue: Due to the commitment by governments in the Paris Agreement to limit climate warming to 2 degrees, the Oil and Gas sector is at risk of many of its assets being stranded. This means that companies may not be able to burn all the reserves they have on their books due to limits on global warming, which constitutes a financial risk in the short and long term. Investors therefore need transparency around this information to understand both the financial risks and also what companies are doing to diversify energy production away from fossil fuels to ensure they remain viable for the long term.</p> <p>What did LGIM do? LGIM held several private conversations in 2016 with the company on this issue but has recently joined forces with several other investors to ask the company to provide this relevant information. In the last quarter we have had two collaborative meetings with the company on this matter.</p> <p>This follows on from the vote at the AGM in April where LGIM publicly pre-declared support for the shareholder proposal put to the company at the AGM on climate change disclosure, to allow the company and stakeholders to understand the importance of the issue.</p> <p>The outcome? On 4 November the company issued a statement welcoming the Paris Agreement. We will continue to work with the company and collectively with other shareholders on the disclosure of their portfolio resilience reporting.</p>
Market cap \$360bn	
Oil and gas	

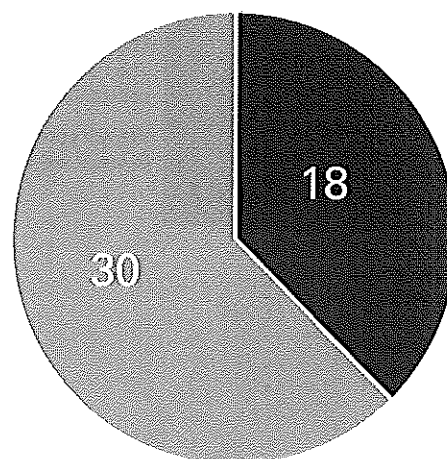
Q4 2016 VOTING SUMMARY NORTH AMERICA

Proposal category	NORTH AMERICA		
	For	Against	Abstain
Anti-takeover Related	11	1	
Capitalisation	7	3	
Directors Related	314	49	
Non-Salary Comp.	40	19	
Reorg. and Mergers	6	1	
Routine/Business	46	1	
SH-Compensation		1	
SH-Corp Governance		2	
SH-Dirs' Related	3		
SH-Gen Econ Issues			
SH-Health/Environ.		1	
SH-Other/misc.	2	2	
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal	1		
Total	430	80	
Total resolutions	510		
No. AGMs	37		
No. EGMs	11		
No. of companies voted	48		
No. of companies where voted against/abstain at least one resolution	30		
% no. of companies where at least one vote against	63		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



- No. of companies supported
- No. of companies where voted against/abstain at least one resolution

'LGIM voted against at least one resolution at 63% of North American companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates

Japan

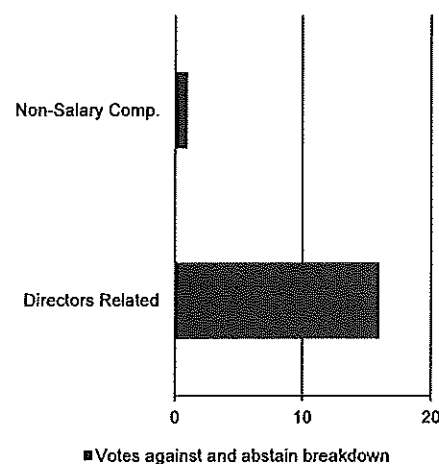
KEY COMPANY ENGAGEMENTS

<p>Tokyo Stock Exchange</p>	<p>What is the issue: Japan continues its positive corporate governance reforms following the introduction of its first Corporate Governance Code in 2015.</p>
<p>Market wide</p>	<p>Japan's corporate reporting regime and practices are often duplicative with multiple reports needing to be produced and audited. The Financial Council Disclosure Working Group (set up under the FSA) put forward proposals to allow companies more freedom in the format that they use for the 'earnings digest' which is used for reporting quarterly and annual results.</p> <p>In October 2016 the Tokyo Stock Exchange (TSE) launched a consultation of reform on these proposals. Whilst we are supportive of corporate reporting reform in Japan, we had concerns that the implementation of the proposals would have unintended consequences for shareholders by not requiring a full set of financial statements to be prepared ahead of the AGM.</p> <p>Why is it an issue: In Japan, the audited Annual Report is not normally available until after the AGM. Therefore, investors are reliant on the full financial statements published with the fourth quarter earnings digest as the only source of detailed information ahead of the vote. Shareholders vote at the AGM to approve, amongst other items, the dividend and election of the statutory audit board. The detailed financial information is therefore vital to make informed voting decisions.</p> <p>What did LGIM do? LGIM worked in collaboration with Standard Life Investments and RPMi Railpen to send a single message of concern to the TSE. We contacted local Japanese investors to fully understand the impact of the proposals. We then drafted a collective letter to the TSE expressing our concerns. The letter was signed by over 40 asset managers and asset owners and was supported by two investor associations. Working collaboratively sent a consistent message to the TSE and demonstrated the breadth of concern across the market.</p> <p>The outcome? The TSE will now consider all the responses to the consultation. They have already acknowledged the collective letter and welcomed international investors' interest and valuable input in the topic.</p> <p>We will continue to engage with the Tokyo Stock Exchange, the Financial Services Authority and related investor working groups in Japan on corporate governance reforms.</p>

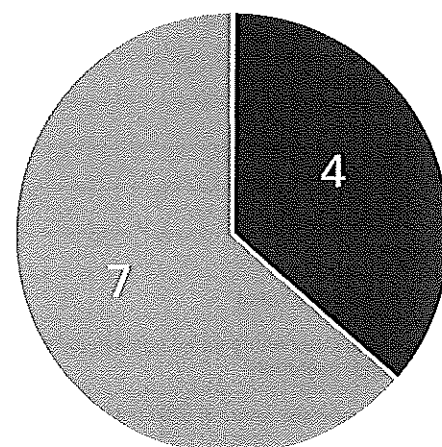
Q4 2016 VOTING SUMMARY JAPAN

Proposal category	JAPAN		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation			
Directors Related	73	16	
Non-Salary Comp.	1	1	
Reorg. and Mergers	7		
Routine/Business	6		
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	87	17	
Total resolutions	104		
No. AGMs	7		
No. EGMs	4		
No. of companies voted	11		
No. of companies where voted against/abstain at least one resolution	7		
% no. of companies where at least one vote against	63		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



'LGIM voted against at least one resolution at 63% of Japanese companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

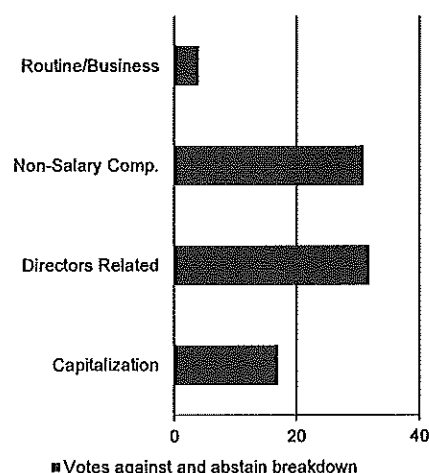
Regional updates

Asia Pacific

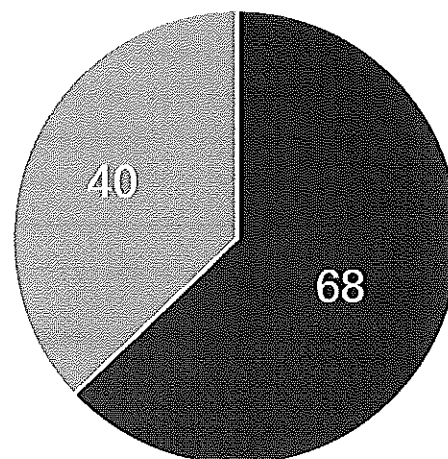
Q4 2016 VOTING SUMMARY ASIA PACIFIC

Proposal category	ASIA PACIFIC		
	For	Against	Abstain
Anti-takeover Related	11		
Capitalisation	24	17	
Directors Related	262	32	
Non-Salary Comp.	137	31	
Reorg. and Mergers	24		
Routine/Business	58	4	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	516	84	
Total resolutions	600		
No. AGMs	86		
No. EGMs	22		
No. of companies voted	108		
No. of companies where voted against/abstain at least one resolution	40		
% no. of companies where at least one vote against	37		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



- No. of companies supported
- No. of companies where voted against/abstain at least one resolution

'LGIM voted against at least one resolution at 37% of Asia Pacific companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates

Emerging markets

KEY COMPANY ENGAGEMENTS

ITAU Unibanco Holdings SA	<p>Engagement update The Company outlined the three main focuses for their sustainability team: financial education, social and environmental risks, and transparency. All products are assessed as to whether there is any sustainability impact or whether they are the right ones for the customers.</p> <p>We also discussed social inclusion. We were informed that this is addressed by their micro credit business which provides door-to-door credit, is based on cash flows and uses social media to reach 55 million people. They have IT models that flag potential problems with debt customers which reduces their losses. In addition, they offer online personal finance training which can be accessed via mobile. Participants of the training benefit by receiving better rates. Having climate policies was a part of their capital requirements.</p>
Brazil	
Market cap BRL 214bn	
Banks	

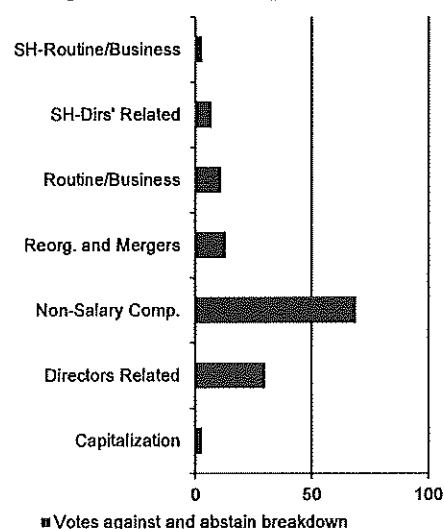
Vale SA	<p>Engagement update During their annual capital markets day, management emphasised how important safety is to their business. They hold a Safety Promotion day for all employees and contractors with zero harm as a target throughout their operations. As a result, injury rates and incidents have both seen a reduction. They talked about the steps they have taken to help the people affected by the Samarco Dam failure by providing shelter while their homes were being re-built. No one was out of their homes for more than 24 hours.</p> <p>In addition, together with BHP Billiton, they are focused on the repair, restoration and reconstruction programs of the regions, with an emphasis on environment and social economic recovery programs. Water preservation, energy savings and renewables are also important. 85% of water used is being recycled and re-used. Their S11D project, which is considered a benchmark in sustainability, uses 93% less water of which 86% is recycled and re-used. They plan to replicate the processes used in S11D in other projects which will increase the sustainability of their operations.</p>
Brazil	
Market cap BRL 158bn	
Mining	

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

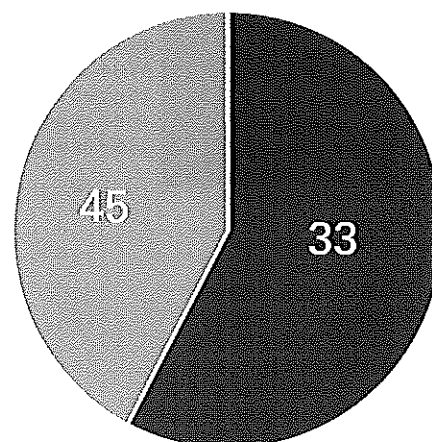
Q4 2016 VOTING SUMMARY EMERGING MARKETS

Proposal category	EMERGING MARKETS		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation	73	3	
Directors Related	180	30	
Non-Salary Comp.	15	69	
Reorg. and Mergers	68	13	
Routine/Business	132	11	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related		7	
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business		3	
SH-Soc./Human Rights			
Social Proposal			
Total	468	136	
Total resolutions	604		
No. AGMs	19		
No. EGMs	59		
No. of companies voted	78		
No. of companies where voted against/abstain at least one resolution	33		
% no. of companies where at least one vote against	42		

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



- No. of companies supported
- No. of companies where voted against/abstain at least one resolution

'LGIM voted against at least one resolution at 42% of emerging market companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

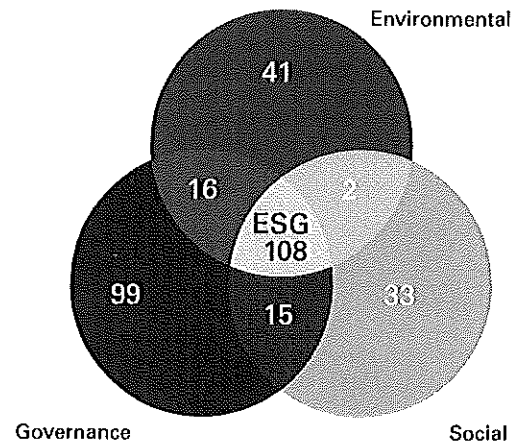
Global summary

VOTING TOTALS

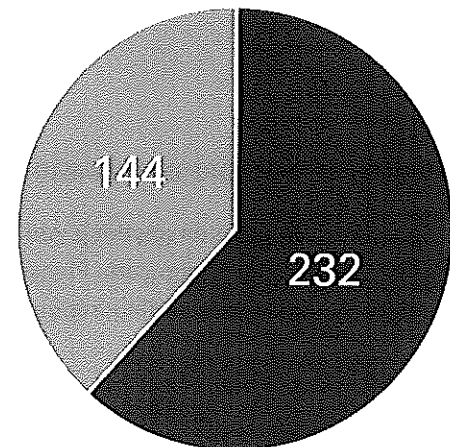
Proposal category	Total
Anti-takeover Related	67
Capitalisation	427
Directors Related	1468
Non-Salary Comp.	459
Reorg. and Mergers	156
Routine/Business	663
SH-Compensation	1
SH-Corp Governance	2
SH-Dirs' Related	11
SH-Gen Econ Issues	0
SH-Health/Environ.	1
SH-Other/misc.	4
SH-Routine/Business	3
SH-Soc./Human Rights	0
Social Proposal	1

Total resolutions	3263
No. AGMs	239
No. EGMs	142
No. of companies voted	376

Frequency of ESG topics



Number of companies voted against/abstain



▪ No. of companies supported

◦ No. of companies where voted against/abstain at least one resolution

COMPANY ENGAGEMENT STATISTICS

Proposal category	Total
Total number of companies	91
Total number of meetings	108
Number of meetings where environmental topics discussed	41
Number of meetings where social topics discussed	33
Number of meetings where governance topics discussed	99
Number of meetings where other topics (e.g. financial and strategy) discussed	63
% of meetings including environmental and social issues discussed	52

Top 3 engagement themes this quarter:	Board composition	Remuneration	Strategy
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CONTACT US FOR MORE INFORMATION

For further information on anything you have read in this report or to provide feedback, please contact us at corporategovernance@lgim.com. Please visit our website www.lgim.com/corporategovernance where you will also find more information including frequently asked questions.

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Shropshire County Council

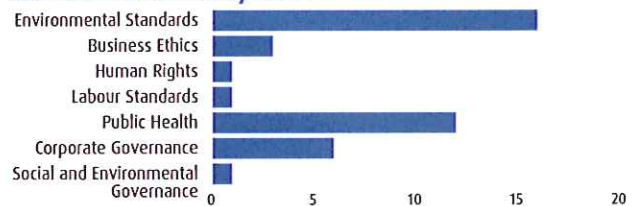
Q4 2016

The purpose of the **reo**[®] (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**[®] 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**[®] 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	143
Milestones achieved	40
Countries covered	20

Milestones achieved by issue



Companies engaged by country



Companies engaged by issue^{***}



Priority Companies and Your Fund

The table below highlights the companies on BMO's annual priority engagement list with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. Priority companies are selected through a detailed analysis of client holdings, proprietary ESG risk scores, engagement history and the BMO Governance and Sustainable Investment team's judgement and expertise. Each priority company has defined engagement objectives set at the beginning of each year. Engagement activity levels for priority companies are more intensive than for companies where we engage more reactively. We provide reporting on our engagement with priority companies in the form of case studies which follows the table below. For full list of priority companies please refer to the Appendix at the end of this report. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Sector	ESG Rating	Response to engagement	Themes engaged									
				Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance			
Amazon.com Inc	Consumer Discretionary	ORANGE	Poor										
Anglo American PLC	Materials	YELLOW	Good	●									●
Banco Santander SA	Financials	YELLOW	Good		●							●	
Bank of America Corp	Financials	ORANGE	Adequate	●								●	
Barclays PLC	Financials	YELLOW	Good	●								●	
BNP Paribas SA	Financials	YELLOW	Adequate	●	●							●	
BP PLC	Energy	ORANGE	Good	●		●	●						
Carrefour SA	Consumer Staples	YELLOW	Adequate	●		●	●	●					
Eni SpA	Energy	YELLOW	Good	●								●	
Facebook Inc	Information Technology	ORANGE	Adequate		●							●	
GlaxoSmithKline PLC	Health Care	YELLOW	Good		●			●		●		●	
Glencore PLC	Materials	ORANGE	Good	●									●
Goldman Sachs Group Inc/The	Financials	YELLOW	Good									●	
HSBC Holdings PLC	Financials	RED	Good		●							●	●
JPMorgan Chase & Co	Financials	ORANGE	Adequate									●	
Monsanto Co	Materials	RED	Poor	●									
Novartis AG	Health Care	YELLOW	Good		●			●		●		●	
Occidental Petroleum Corp	Energy	YELLOW	Adequate	●									
Roche Holding AG	Health Care	GREEN	Adequate		●			●					
Royal Dutch Shell PLC	Energy	GREEN	Good	●			●					●	●
RWE AG	Utilities	GREEN	Adequate	●								●	
Tesco PLC	Consumer Staples	GREEN	Good		●								
UniCredit SpA	Financials	YELLOW	Good		●							●	
Volkswagen AG	Consumer Discretionary	RED	Poor	●	●							●	
Wells Fargo & Co	Financials	RED	Poor									●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Red rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online reo® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance	
CF Industries Holdings Inc	United States	Materials		RED	●							
Chevron Corp	United States	Energy		RED	●							
Continental AG	Germany	Consumer Discretionary		RED	●							
CVS Health Corp	United States	Consumer Staples		RED		●						
Dixons Carphone PLC	United Kingdom	Consumer Discretionary		RED	●			●				
EMS-Chemie Holding AG	Switzerland	Materials		RED	●							
FANUC Corp	Japan	Industrials		RED							●	
HSBC Holdings PLC	United Kingdom	Financials	✓	RED		●					●	●
Monsanto Co	United States	Materials	✓	RED	●							
SMC Corp/Japan	Japan	Industrials		RED							●	
Sumitomo Realty & Development Co Ltd	Japan	Real Estate		RED							●	
Suruga Bank Ltd	Japan	Financials		RED							●	
Volkswagen AG	Germany	Consumer Discretionary	✓	RED	●	●					●	
Wells Fargo & Co	United States	Financials	✓	RED							●	
WII Group Ltd	Hong Kong	Consumer Staples		RED	●							

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Orange rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance	
Amazon.com Inc	United States	Consumer Discretionary	✓	ORANGE				●				
Asahi Group Holdings Ltd	Japan	Consumer Staples		ORANGE	●					●	●	
BAE Systems PLC	United Kingdom	Industrials		ORANGE						●		
Bank of America Corp	United States	Financials	✓	ORANGE	●					●		
BP PLC	United Kingdom	Energy	✓	ORANGE	●		●	●				
Central Japan Railway Co	Japan	Industrials		ORANGE						●		
Conagra Brands Inc	United States	Consumer Staples		ORANGE		●			●		●	
Dentsu Inc	Japan	Consumer Discretionary		ORANGE						●		
Eastman Chemical Co	United States	Materials		ORANGE	●							
Facebook Inc	United States	Information Technology	✓	ORANGE		●				●		
Fuchs Petrolub SE	Germany	Materials		ORANGE	●							
Glencore PLC	Switzerland	Materials	✓	ORANGE	●							●
Illinois Tool Works Inc	United States	Industrials		ORANGE		●		●				
Isuzu Motors Ltd	Japan	Consumer Discretionary		ORANGE						●		
JPMorgan Chase & Co	United States	Financials	✓	ORANGE						●		
Keyence Corp	Japan	Information Technology		ORANGE	●		●	●				
Kroger Co/The	United States	Consumer Staples		ORANGE	●							
Lloyds Banking Group PLC	United Kingdom	Financials		ORANGE						●	●	
Mitsubishi UFJ Financial Group Inc	Japan	Financials		ORANGE						●		
Nissan Motor Co Ltd	Japan	Consumer Discretionary		ORANGE						●		
Otsuka Holdings Co Ltd	Japan	Health Care		ORANGE						●		
Panasonic Corp	Japan	Consumer Discretionary		ORANGE						●		
S&P Global Inc	United States	Financials		ORANGE	●							
Seven & I Holdings Co Ltd	Japan	Consumer Staples		ORANGE						●		
Smith & Nephew PLC	United Kingdom	Health Care		ORANGE						●		
Societe Generale SA	France	Financials		ORANGE	●							
SoftBank Group Corp	Japan	Telecommunication Services		ORANGE						●		
Sumitomo Electric Industries Ltd	Japan	Consumer Discretionary		ORANGE						●		
Vulcan Materials Co	United States	Materials		ORANGE	●							

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: LOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Yellow rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance	
Air Products & Chemicals Inc	United States	Materials		YELLOW	●							
Anglo American PLC	United Kingdom	Materials	✓	YELLOW	●							●
Arkema SA	France	Materials		YELLOW	●							
Associated British Foods PLC	United Kingdom	Consumer Staples		YELLOW	●						●	
Banco Santander SA	Spain	Financials	✓	YELLOW		●					●	
Bardays PLC	United Kingdom	Financials	✓	YELLOW	●						●	
BNP Paribas SA	France	Financials	✓	YELLOW	●	●					●	
Carrefour SA	France	Consumer Staples	✓	YELLOW	●		●	●	●			
CLP Holdings Ltd	Hong Kong	Utilities		YELLOW	●							
Coca-Cola Co/The	United States	Consumer Staples		YELLOW		●			●			●
Domino's Pizza Inc	United States	Consumer Discretionary		YELLOW		●						
East Japan Railway Co	Japan	Industrials		YELLOW							●	
Enbridge Inc	Canada	Energy		YELLOW	●		●					
Eni SpA	Italy	Energy	✓	YELLOW	●						●	
GlaxoSmithKline PLC	United Kingdom	Health Care	✓	YELLOW		●			●	●		
Goldman Sachs Group Inc/The	United States	Financials	✓	YELLOW							●	
Hitachi Ltd	Japan	Information Technology		YELLOW	●							
Hoya Corp	Japan	Health Care		YELLOW							●	
Japan Exchange Group Inc	Japan	Financials		YELLOW							●	
JFE Holdings Inc	Japan	Materials		YELLOW							●	
JX Holdings Inc	Japan	Energy		YELLOW							●	
Marine Harvest ASA	Norway	Consumer Staples		YELLOW	●		●	●	●			
Mizuho Financial Group Inc	Japan	Financials		YELLOW							●	
Mondelez International Inc	United States	Consumer Staples		YELLOW		●			●			●
Mosaic Co/The	United States	Materials		YELLOW	●							
Nippon Steel & Sumitomo Metal Corp	Japan	Materials		YELLOW							●	
Novartis AG	Switzerland	Health Care	✓	YELLOW		●			●	●		
Nucor Corp	United States	Materials		YELLOW	●							
Occidental Petroleum Corp	United States	Energy	✓	YELLOW	●							
Orica Ltd	Australia	Materials		YELLOW	●							
PG&E Corp	United States	Utilities		YELLOW	●							
Praxair Inc	United States	Materials		YELLOW	●							●
Sherwin-Williams Co/The	United States	Materials		YELLOW	●							
Shin-Etsu Chemical Co Ltd	Japan	Materials		YELLOW	●						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Yellow rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged								
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance		
St James's Place PLC	United Kingdom	Financials		YELLOW									
Takeda Pharmaceutical Co Ltd	Japan	Health Care		YELLOW									
Ted Baker PLC	United Kingdom	Consumer Discretionary		YELLOW									
UniCredit SpA	Italy	Financials	✓	YELLOW									
Unilever PLC	United Kingdom	Consumer Staples		YELLOW									
Yara International ASA	Norway	Materials		YELLOW									

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Green rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Aeon Co Ltd	Japan	Consumer Staples		GREEN	●		●	●	●		
Ajinomoto Co Inc	Japan	Consumer Staples		GREEN		●			●		●
Anheuser-Busch InBev SA/NV	Belgium	Consumer Staples		GREEN	●	●		●	●		●
Antofagasta PLC	Chile	Materials		GREEN	●		●				
Arconic Inc	United States	Materials		GREEN	●						
AstraZeneca PLC	United Kingdom	Health Care		GREEN		●			●	●	
Banco Bilbao Vizcaya Argentaria SA	Spain	Financials		GREEN						●	
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN						●	
Cardinal Health Inc	United States	Health Care		GREEN					●		
Croda International PLC	United Kingdom	Materials		GREEN	●						
Denso Corp	Japan	Consumer Discretionary		GREEN						●	
Ecolab Inc	United States	Materials		GREEN	●						
El du Pont de Nemours & Co	United States	Materials		GREEN	●						
Enagas SA	Spain	Utilities		GREEN	●					●	
Enel SpA	Italy	Utilities		GREEN	●						
Evonik Industries AG	Germany	Materials		GREEN	●						
Fuji Heavy Industries Ltd	Japan	Consumer Discretionary		GREEN						●	
FUJIFILM Holdings Corp	Japan	Information Technology		GREEN						●	
General Mills Inc	United States	Consumer Staples		GREEN		●			●		●
Heineken NV	Netherlands	Consumer Staples		GREEN	●						
Honda Motor Co Ltd	Japan	Consumer Discretionary		GREEN						●	
Industria de Diseno Textil SA	Spain	Consumer Discretionary		GREEN			●	●			
InterContinental Hotels Group PLC	United Kingdom	Consumer Discretionary		GREEN		●		●		●	●
International Flavors & Fragrances Inc	United States	Materials		GREEN	●						
Kansai Paint Co Ltd	Japan	Materials		GREEN						●	
KDDI Corp	Japan	Telecommunication Services		GREEN						●	
Kerry Group PLC	Ireland	Consumer Staples		GREEN	●						
Kubota Corp	Japan	Industrials		GREEN						●	
Kyocera Corp	Japan	Information Technology		GREEN						●	
Lendlease Group	Australia	Real Estate		GREEN						●	
Marks & Spencer Group PLC	United Kingdom	Consumer Discretionary		GREEN	●	●	●	●			
Merck & Co Inc	United States	Health Care		GREEN					●		
Merck KGaA	Germany	Health Care		GREEN					●		

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
 Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Merlin Entertainments PLC	United Kingdom	Consumer Discretionary		GREEN		●					
Murata Manufacturing Co Ltd	Japan	Information Technology		GREEN						●	
Next PLC	United Kingdom	Consumer Discretionary		GREEN			●	●			
Novo Nordisk A/S	Denmark	Health Care		GREEN		●			●		
Novozymes A/S	Denmark	Materials		GREEN	●					●	
NIT DOCOMO Inc	Japan	Telecommunication Services		GREEN						●	
PepsiCo Inc	United States	Consumer Staples		GREEN		●			●		●
Repsol SA	Spain	Energy		GREEN	●						
Roche Holding AG	Switzerland	Health Care	✓	GREEN		●			●		
Royal Dutch Shell PLC	Netherlands	Energy	✓	GREEN	●			●		●	●
RWE AG	Germany	Utilities	✓	GREEN	●					●	
Sanofi	France	Health Care		GREEN					●		
Sika AG	Switzerland	Materials		GREEN	●						
Skandinaviska Enskilda Banken AB	Sweden	Financials		GREEN	●						
Solvay SA	Belgium	Materials		GREEN	●						
Statoil ASA	Norway	Energy		GREEN	●						
Stora Enso Oyj	Finland	Materials		GREEN	●						
Sumitomo Mitsui Trust Holdings Inc	Japan	Financials		GREEN						●	
Tesco PLC	United Kingdom	Consumer Staples	✓	GREEN		●					
Tesla Motors Inc	United States	Consumer Discretionary		GREEN	●				●		
Tokio Marine Holdings Inc	Japan	Financials		GREEN						●	
TOTAL SA	France	Energy		GREEN	●						
United Utilities Group PLC	United Kingdom	Utilities		GREEN						●	
Vodafone Group PLC	United Kingdom	Telecommunication Services		GREEN						●	
Voestalpine AG	Austria	Materials		GREEN	●						
WPP PLC	United Kingdom	Consumer Discretionary		GREEN						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW This quartile: ORANGE Bottom quartile: RED

Milestones and Your Fund

The table below highlights the companies with which we have recorded milestones on your behalf in the past quarter and which you currently hold within your portfolio. Milestones are engagement outcomes which we have identified and is rated on the extent to which it protects investor value. For full details of our engagements which led to these milestones please refer to the online reo® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Enagas SA	Spain	Utilities		GREEN							●
AbbVie Inc	United States	Health Care	✓	YELLOW							●
Antofagasta PLC	Chile	Materials		GREEN			●				
BP PLC	United Kingdom	Energy	✓	ORANGE	●						
Daiichi Sankyo Co Ltd	Japan	Health Care		ORANGE							●
Eisai Co Ltd	Japan	Health Care		GREEN							●
Exxon Mobil Corp	United States	Energy		ORANGE							●
GlaxoSmithKline PLC	United Kingdom	Health Care	✓	YELLOW		●					
Kroger Co/The	United States	Consumer Staples		ORANGE	●						
Lundin Petroleum AB	Sweden	Energy		GREEN	●						
Oil Search Ltd	Australia	Energy		GREEN	●						
PepsiCo Inc	United States	Consumer Staples		GREEN	●						●
Pfizer Inc	United States	Health Care	✓	RED							●
Royal Dutch Shell PLC	Netherlands	Energy	✓	GREEN	●						●
Sanofi	France	Health Care		GREEN							●
SoftBank Group Corp	Japan	Telecommunication Services		ORANGE							●
Takeda Pharmaceutical Co Ltd	Japan	Health Care		YELLOW							●
Telefonica SA	Spain	Telecommunication Services		GREEN	●						
Telia Co AB	Sweden	Telecommunication Services		GREEN							●
Tullow Oil PLC	United Kingdom	Energy		ORANGE	●						
Wal-Mart Stores Inc	United States	Consumer Staples	✓	YELLOW							●
Astellas Pharma Inc	Japan	Health Care		GREEN							●
AstraZeneca PLC	United Kingdom	Health Care		GREEN							●
Banco Bilbao Vizcaya Argentaria SA	Spain	Financials		GREEN							●
Bayer AG	Germany	Health Care		YELLOW							●
Bristol-Myers Squibb Co	United States	Health Care		YELLOW							●
EDP - Energias de Portugal SA	Portugal	Utilities		GREEN	●						
Electricite de France SA	France	Utilities	✓	YELLOW	●						
Engie SA	France	Utilities		GREEN	●						
HSBC Holdings PLC	United Kingdom	Financials	✓	RED	●						

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones and Your Fund

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Iberdrola SA	Spain	Utilities		GREEN	●						
Johnson & Johnson	United States	Health Care	✓	ORANGE		●					
Merck & Co Inc	United States	Health Care		GREEN		●					
Novo Nordisk A/S	Denmark	Health Care		GREEN					●		
SSE PLC	United Kingdom	Utilities		GREEN	●						
Wells Fargo & Co	United States	Financials	✓	RED						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

ESG Viewpoint

December 2016

Thomas Hassl, Analyst, Governance and Sustainable Investment

Emission management in carbon intensive sectors

➤ **Goal:** Managing the risks and opportunities stemming from climate change trends and regulation

➤ **Engagement since:** 2016

➤ **Sectors involved:** Chemicals, Construction Materials, Steel and Aluminium

Key summary

- Tightening regulatory requirements paired with changing stakeholder expectations are altering the competitive environment of carbon intensive companies.
- We examined how companies in carbon intensive sectors have assessed the impacts of climate policies on their business and how these impacts are translated into corporate greenhouse gas (GHG) mitigation strategies.
- Our engagement identified significant discrepancies among company practices. This was particularly the case with regards to scenario planning and the use of mechanisms to incentivise energy efficiency strategies.

Background

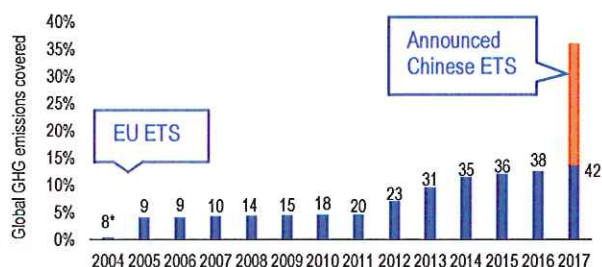
The past two years have witnessed a historic step forward in taking global action on climate change. In December 2015, the leaders of 195 countries adopted the first-ever universal, legally binding global climate agreement at the Conference of Parties (COP)21 climate change summit in Paris to keep the global average temperature increase to well below two

degrees Celsius (2°C) and to pursue efforts to hold the increase to 1.5°C. Over the course of 2016, several major economies, including China, the US and EU, have ratified the agreement. These are significant steps in reaching the 55-party target needed for the agreement to enter into force (this is now at 86 as of writing). The threshold was reached and the agreement entered in force in early October this year, a month before the COP22 summit in Marrakech.

For the corporate sector, this policy change comes with growing pressure to address and disclose climate change management strategies and related metrics, as well as to contribute its share in meeting the carbon reduction targets as reflected in Nationally Determined Contributions (NDCs). In this context, carbon pricing schemes and Emission Trading Schemes (ETS) in particular are gaining traction as the preferred policy instrument for many governments. At the time of writing, about 40 national jurisdictions and over 20 cities, states, and regions are putting a price on carbon. This translates to a total coverage of about 13% of global GHG emissions. These numbers are expected to increase, with 101 countries accounting for 58% of global GHG emissions considering using carbon pricing, according to a recent survey conducted on behalf of the World Bank.¹

¹ World Bank Group "State and Trends of Carbon Pricing" October 2016.

Regional, national and subnational carbon pricing initiatives: share of global GHG emissions covered



Source: World Bank Group October 2016. Forecasts thereafter.
*Number of implemented initiatives.

Most ETS' currently being implemented focus on the most energy intensive sectors such as power generation and industrial plants (in the EU, ETS also include Airlines). For companies operating in these sectors, the inclusion under ETS directly increases operational costs and, therefore, impacts profitability and shareholder value.

The cost aspect constitutes the key driver for the corporate sector to meet carbon reduction goals in a cost efficient way, either by trading emission allowances or investing in carbon reduction strategies. However, it becomes increasingly evident that this aspect also triggers unintended, but foreseeable, side effects, such as "carbon leakage", i.e. the possibility that carbon intensive companies move part of their production to countries with less stringent climate measures, as this becomes economically viable. Steel, construction materials and chemicals companies, the focus group of this engagement project, are potentially all exposed to carbon leakage.

We believe that a global carbon market, which facilitates cross border trading of carbon allowances and covers a critical mass of relevant markets (>80%) would largely eliminate the incentive to relocate carbon intensive business segments. Such a market allows those who have the financial responsibility for reducing emissions to purchase emission reductions wherever this is most cost-effective². In particular, it would eliminate the allocation of free allowances to sectors deemed to be exposed to a risk of carbon leakage. This has been proven to harm the efficiency of the EU ETS to an extent that it even provided significant windfall profits to certain cement and steel companies, including **Lafarge** (€37 million of sales in 2014) and **ArcelorMittal** (surplus of 7 million European Emissions Allowance (EUA) in 2015, worth around €40 million at current prices). While Article 6 of Paris Agreement provides the basis for facilitating international recognition of cooperative carbon pricing, the political hurdles, including the recent US election

outcome, are likely to be too high to expect an agreement in the near future.

For carbon intensive companies to better assess and understand the economics of climate change, it is vital to assess and compare different adaptation strategies and their economic viability under different policy scenarios. Issues to consider include the availability of technological innovations, demand pressure stemming from product substitution and cost pressure due to carbon pricing. It is becoming increasingly important for corporates to consider these aspects in conjunction with current and expected carbon pricing liabilities.

Engagement action

Our engagement targeted steel, construction materials and chemicals companies worldwide. While we believe that key risk drivers and corresponding best practice management standards are equally applicable among companies operating in all three sectors, our engagement also considered sector specific aspects including opportunities. Biofuels used by cement and steel companies to replace fossil fuels in the production process for example, constitute an opportunity for chemicals companies such as **Novozymes**, who specialised in the development and production of these substitutes.

Our project followed a two-step approach. In Phase 1, we approached companies with solid GHG management programmes, substantiated with quantifiable improvements of key carbon metrics in recent years. In Phase 2, we then reached out to lagging companies to express our concerns and asking them to compare their climate change approach and practices against those of more advanced peers that we had identified in the first phase of the project. These advanced practices include:

- **Board oversight:** Dedicated board resources and expertise on climate change economics and effective oversight to ensure that business models are resilient to rapid energy transition pathways.
- **Scenario planning:** The use of scenario planning to understand how the likely direction and speed of an energy transition, as reflected in the COP21 agreement and national carbon reduction commitments, will impact future profits and shareholder value.
- **Emission reduction targets:** Defining suitable long-term reduction goals in line with anticipated regulatory requirements, market trends as well as overarching corporate climate commitments.
- **Mitigation strategies:** Group-wide mechanisms to incentivise energy efficiency strategies, underpinned by

a carbon shadow price, for example. The implementation of a carbon shadow price helps to prepare for the impact of tightening regulatory requirements on operations or the company's value chain as well as to align incentives to meet the company's GHG reduction targets. We also encourage companies to allocate and report on dedicated research and development expenditures for low-carbon solutions along the product life-cycle.

- **Transparency and commitment:** Public disclosure of detailed information on the management of carbon related risks, opportunities and metrics. We also encourage companies to have the systems and processes in place to monitor and respond to tightening carbon reporting requirements.

Following our initial outreach to 64 companies, we had comprehensive engagement calls with 19 and received written answers from another 18.

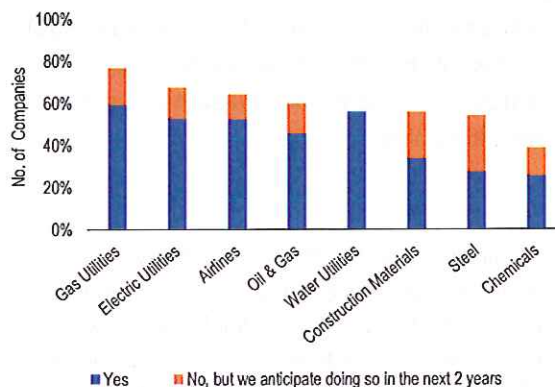
Company response

Generally, our engagement revealed that climate change related issues receive significant management attention across these companies, which is unsurprising given the carbon intensity of their operations. Out of the 37 companies we engaged, no fewer than 30 (81%) had direct or indirect – through sub-committees – board responsibility over climate change. Also, most carbon intensive companies transparently disclose their (Scope 1 and 2) carbon emissions (97%) and set emission reduction targets and deadlines (82%), albeit with varying quality.

Larger performance dispersion is evident in relation to the target setting process, as well as the underlying considerations and assumptions used. Only a few companies have compelling rationales and even fewer consider climate change scenarios – such as a 2°C pathway – when setting the magnitude of these targets. Finally, only a few also use a science-based approach to target setting.

With regards to scenario planning and the use of mechanisms to incentivise energy efficiency strategies we see widespread discrepancies among company practices. While an increasing number of companies are starting to use carbon pricing to factor in the cost of carbon in their capital expenditure (CAPEX) and operational expenditure, we note that the proportion of companies is still relatively small compared to other carbon intensive sectors such as oil and gas and utilities (see next chart).

Number of companies reporting to use an internal price on carbon



Source: CDP December 2016.

CRH – Best practice example

CRH is considered a leading construction materials company in terms of carbon management and is recognised for its solid carbon metrics. Our engagement with the company largely confirms this view. Unlike many of its peers, the Irish company's carbon management strategy considers both tightening regulatory requirements, reflected in the NDCs submitted by countries as part of the COP21 Paris Climate Agreement, and the broader Sustainable Development Goals. The company aligns its carbon reduction targets with these standards and conducts sensitivity analysis to stress test its business model against different climate scenarios. In terms of emission reduction, the company collaborates with different industry bodies in order to research and develop mitigation strategies which help the company meet its carbon reduction target to reduce emissions by 25% by Financial Year (FY) 2020 relative to FY1990 levels, one of the strictest carbon reduction targets in the construction materials industry.



They, said:

“... such a facility costs hundreds of millions of [US] dollars, it would be silly not to consider a carbon price when assessing the Net Present Value (NPV) of a chemicals plant.”

BASF

To assess and prepare for tightening regulatory requirements, companies implement different strategies with varying degree of quality and suitability. Less than one third (27%) of the companies engaged use scenario planning to assess their exposure to various climate change outlooks. Others, such as **Voestalpine** take a more practical approach and make sure to have the technological solutions on hand to compile with even the most stringent emission reduction targets, once they materialise. Similarly, **Vale** is developing a so-called marginal abatement cost curve (MACC), which helps the steel company prioritise different emission reduction projects. Most carbon intensive companies we engaged, however, follow a more regulatory driven approach. They focus their efforts on monitoring and complying with prevailing regulatory requirements, rather than assessing and preparing for potential tightening of such regimes. Our engagement did not reveal any concrete plans to relocate carbon intensive operations to jurisdictions with less stringent carbon regulation. Companies exposed to carbon leakage, however, signalled that they are considering such moves if the financial exposure increases due to tightening regulations and if carbon policy is not harmonising across geographic regions.

From an opportunity perspective, companies appeared to be better prepared to capitalise on the potential stemming from climate change. Chemicals companies in particular develop and market a multitude of products that – compared to

conventional alternatives – make a positive contribution to reducing GHG emissions in their applications. Examples of such products include lighter material, catalysts for light and heavy duty vehicles, wind turbines, chemicals needed to produce solar panels and Lithium-ion batteries used in electric vehicles, for example. Also, many construction materials and steel and aluminium companies anticipate changing market trends and devote increasing CAPEX to the development of climate-friendly products that are in line with sustainable mobility or the green building concepts.

Assessment

Growing cost pressure to comply with climate change related regulation across the globe, coupled with changing stakeholder expectations are altering the competitive environment of carbon intensive companies, and are revealing both opportunities and threats. For companies in carbon-intensive sectors to better assess and understand the economics of climate change, it is vital to assess and compare different adaptation strategies and their economic viability under different policy scenarios.

Our engagement revealed that compared to their peers in the energy and mining sectors, companies operating in the steel, construction materials and chemicals industry are less advanced in modelling and managing their climate change exposure. Especially with regards to scenario planning and the use of mechanisms to incentivise energy efficiency strategies. We identified widespread discrepancies among company practices, ranging from purely regulatory-driven approaches to forward-looking exposure assessments based on scenario modelling.

We expect engagement around emission management in carbon intensive sectors to intensify over the coming years. We are positive that the increased pressure will help raise the bar and encourage more companies to strengthen their practices and disclosure.

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ESG Viewpoint

November 2016

Yo Takatsuki, Associate Director, Governance and Sustainable Investment

Pharma: Access to success in the developing world

- **Goal:** Drive business growth and improve access to healthcare in developing countries
- **Engagement since:** 2007
- **Sectors involved:** Pharmaceutical

Key summary

- The rapid growth of emerging economies and the developing world presents long-term opportunities for the major pharmaceutical companies.
- The industry has thus far encountered a mixture of success and disappointment due to not fully appreciating the size of the challenge, especially in improving access to medicines and healthcare.
- Leading companies are now implementing novel, business-focused practices with the combined goal of delivering commercial success and sustainable social development in a world where two billion people still do not have access to health-related products they need.
- Over the past ten years of engagement, we have seen broad improvements in industry practices around access to healthcare provision in the developing world. Many more major companies now have strong programmes in place but some laggards remain.

Background

Advanced economies – the US, Europe and Japan – have traditionally been the drivers of revenue growth and profitability for the major pharmaceutical companies. This established picture, however, is now under challenge. As developed economies continue to constrain or cut back on healthcare funding, spending in developing economies is rapidly increasing. Medium-term healthcare annual growth forecasts in developed economies are in low single digits in percentage terms. In the major emerging markets nations – namely Brazil, Russia, India, China, Mexico and Turkey – growth is at or close to double digits. Also:

- Nearly a third of the global pharmaceutical market will be from outside the advanced economies by the end of 2016 – double the proportion from a decade ago¹.
- Pharmaceutical spend in the developing world (major emerging markets and other lower-income countries) overtook those of the European Union's five major economies (Germany, UK, France, Italy and Spain) in the early part of this decade².
- The developing world will be a key contributor to global pharma sales growth in the coming years, with \$190 billion of new sales forecast to be accounted for by 2020³.

¹ Strategy & research "Pharma emerging markets 2.0"

² McKinsey & Co research "Pharma's next challenge"

³ McKinsey & Co research "Pharma's next challenge"

In the next two decades, it is forecast that the middle class will expand by another three billion people, almost exclusively from the developing world⁴. Increasing prosperity and improving longevity has also resulted in a gradual shift from the traditional communicable diseases of low-income countries – such as tuberculosis, malaria and HIV/AIDS – to non-communicable diseases – such as diabetes, cancer and cardiovascular diseases. This presents further opportunities for companies with treatments in these areas.

Barriers to success

Despite the broadly positive macro trends in the industry's favour, most pharmaceutical companies have thus far encountered a mixture of success and disappointment outside of the major advanced economies. Our research and discussion with pharmaceutical companies and industry experts have identified some of these common pitfalls and difficulties:

- Treating all developing world countries as a single homogenous entity. This has led to go-to-market strategies which are not tailored to the specifics of the country. There has been a growing recognition that one-size-fits-all sales-oriented strategies are not adequate and need to be complemented by country-specific access to market-based strategies.
- Underestimating the challenge of navigating local regulatory requirements. Unlike in advanced countries, regulation and approval processes can be volatile and less predictable. To overcome this, companies have increasingly developed local expertise through acquisition or hiring, but this takes time and effort to bear fruit.
- Overcoming bribery and corruption. Cash in envelopes are largely a thing of the past now following the establishment of tough, extra-territorial legislation in the US and UK. Facilitation payments to local officials and middle-men have morphed into consultancy contracts or other seemingly above-board arrangements. Business ethics is an area with which we have undertaken extensive engagement with pharmaceutical companies but is not a focus of this piece.
- Weak intellectual property protection. Less complex drug molecules and formula are under threat of being copied by local generics producers. However, the industry's ferocious defence of their Intellectual Property (IP) has done much reputational harm (such as in South Africa over antiretrovirals).
- Poor access to healthcare infrastructure and service. This is cited by the World Health Organization as one of

the biggest barriers to improving health. It is wide ranging in nature and reflects the resource poor nature of many developing economies. This includes low quality and lack of: hospitals and clinics, doctors and nurses, diagnostic tools, manufacturing, sanitation and the distribution and supply of medication. It is also affected by broader societal issues such as poor standards of water, electricity, education and transport.

The final point is crucial but difficult. It can often be beyond the resources and ability of a pharmaceutical company – however big they may be – to singlehandedly overcome and resolve the issue of poor healthcare infrastructure. It requires a wide range of stakeholders bringing expertise, commitment and resources for healthcare development to be successful. Despite the rapid growth in healthcare spending in developing countries and potential business opportunities, there continues to be significant hurdles in creating a viable commercial business strategy. At a wider-level, failure to overcome these barriers has major implications for the achievability of healthcare targets and, ultimately, sustainable social development in a world where two billion people still do not have access to health-related products they need.

Access to Medicine Index

A key player driving the industry's practices over the past ten years has been the Access to Medicine Foundation (ATM Foundation). This Dutch not-for-profit has analysed the top 20 research-based global pharmaceutical companies and ranked them according to their efforts to improve access to medicine in developing countries. The first Access to Medicine Index (ATMI) was published in 2008 and a new index has followed every two years. The latest 2016 Index was released on 14th November 2016⁵.

Refinements over the years to the analytical framework – which now includes close to 100 indicators on company performance related to 50 or so diseases in low income countries – has reflected the ever evolving practices within the industry. The Index has acted as a useful and robust benchmark for companies, investors and stakeholders to compare a wide range of approaches within the industry to improve access to medicine.

As the Index gained traction with institutional investors, the ATM Foundation has started to collaborate more closely with the global asset management community. They have organised a series of engagement initiatives including an Investor Statement putting forward the view that access to medicine is a material issue to long-term

⁴ Ernst & Young, 2014

⁵ Access to Medicine Index

shareholder creation. We are signatories alongside 56 other institutional investors⁶. Over the past two years, we have met them on numerous occasions including at their office in the Haarlem, Netherlands and have developed a positive working relationship.

Engagement action

Our engagement history with pharmaceutical companies on this issue is extensive. It can be traced back to May 2007 when we had a discussion with **AstraZeneca**. At the time the methodology for the first Access to Medicine Index was being consulted with the industry. In total, our records show that we have had 150 engagements with 27 companies⁷. This includes 19 of the 20 largest global pharmaceutical companies on the ATMI such as **Pfizer**, **Novartis** and **GlaxoSmithKline (GSK)**. The only exception being Germany's Boehringer Ingelheim which is privately held and issues no equity or bonds. Our engagement also included emerging markets companies – some of which are major manufacturers of generic drugs such as **Ranbaxy Industries** and **Glenmark** – to increase awareness of these issues.

During the past ten years or so of engagement with the industry's leading players, our most important recommendation has been for access to healthcare to be clearly driven by commercial imperatives and to be better integrated into the business' main strategy. From an initial starting point of reticence, we have seen many companies doing increasingly more to improve their approaches to access, with a range of new initiatives and innovations. There has been a slow but gradual shift from philanthropic approaches to focusing on delivering commercial opportunities and establishing new business models. Transparency and disclosures from companies on these areas have improved drastically.

We significantly intensified our engagement with pharmaceutical companies in 2015 by initiating a project on this topic. The objective was to leverage the knowledge we have developed – especially of leading industry practices – over the past decade and to encourage companies with weaker practices to learn from and adopt them.

The project included⁸:

- One-to-one engagement with nine pharmaceutical companies. This included discussions with companies which we identified as having the most advanced practices (e.g. Novartis, Novo Nordisk) but also engagements with those over which we had concerns as having the weakest practices. Three of ATMI's lowest ranked companies are Japanese (Takeda Pharmaceutical, Daiichi Sankyo and Astellas). We engaged with these companies, which included a trip to Tokyo for meetings.
- A collaborative engagement initiative with the ATM Foundation and 40 other institutional investors representing \$5 trillion of assets. We wrote to all 19 of the listed companies on the ATMI calling for full cooperation with the data collection and submission for the 2016 Index. This also included intensive engagement with **Roche** following its refusal to submit data. This was due to oncology treatments, in which Roche is a specialist, not being a part of the ATMI's scope of assessment. We encouraged the Swiss company to reconsider but this did not change the company's decision.

Assessment

We assess from our engagement on this issue that there are clear business-driven practices which pharmaceutical companies can adopt in the developing world – within both the largest emerging markets and the lowest income countries. From an investor's perspective, we have identified the following corporate practices which we consider to be material to shareholder value creation:

1. **Governance:** Senior management and board-level strategic oversight, commitment and accountability;
2. **Performance:** Clear objectives supported by measurable, time-bound targets which are regularly reviewed and monitored;
3. **Pricing:** Sophisticated and intricate approach to inter- and intra-market equitable pricing to ensure different populations with varying levels of affordability can access treatments;
4. **Capability advancement:** Contribution to the development of local healthcare infrastructure and supply chains with a transparent, long-term plan for cooperating with local stakeholders.

⁶ Investor Statement Access to Medicine Index http://www.accesstomedicineindex.org/sites/2015.atmindex.org/files/investor_statement_atmf.pdf

⁷ BMO reo engagement database: Jan 1 2006 - Nov 1 2016

⁸ reo clients will find full detail and reports on each engagement within the online client portal. Search for engagement project "Access to medicines".

Based on these four practice areas, we see three broad levels of company performance within the industry:

- **Leading:** These are companies with the most sophisticated and nuanced approaches to delivering their strategic goals in the developing world. All four areas of practices identified previously will be in place (or clear steps are being taken to achieve it). A wide range of products are available and there are pipelines of relevant treatments for developing countries. We see companies in this category taking key steps to overcome manufacturing, distribution and affordability challenges by implementing novel pricing models in cooperation with local partners to ensure patients across the wealth/poverty spectrum can receive medication – while still making a profit. Reporting and disclosures are transparent and detailed. Of 23 companies we assessed, we rate ten companies within this category⁹.
- **Average:** These companies have implemented key steps and are making progress, but there are a number of important areas which still need to be addressed compared to industry leaders. Companies may have adopted sophisticated approaches but these can be limited to certain countries/regions and are yet to be adopted business-wide globally and on a global scale. Of 23 companies we assessed, we rate seven companies within this category.
- **Weak:** Those in this category are laggards and are yet to develop a sufficient level of internal expertise or capability to overcome the challenges of developing world markets. As a result, most of the approaches adopted have little link to the central business strategy and there is little focus on delivering genuine commercial success. Many in this category see their presence in the developing world as being driven by philanthropy and motivated by corporate social responsibility. Of 23 companies we assessed, we rate six companies within this category.

Pricing

Our discussion in the past two years with companies has focused in particular on pricing. This is an area in which we have seen some big steps being taken. The underlying issue is that the affordability of western treatments is a key barrier in the developing world. Traditionally, this has resulted in global pharmaceutical companies predominantly targeting wealthy, urban patients (who pay out of their own pockets).

This has changed of late, with companies in the “Leading” category, in particular, establishing equitable pricing strategies that include affordability considerations. This has led to implementations of:

- *inter-country* equitable pricing (charging different prices for same drug for example between Netherlands and India);
- *intra-country* equitable pricing (charging different prices for same drug between different segments in the same country).

A number of leading companies such as **Gilead** commit to both and report specific details on its performance.

Intra-country equitable pricing – which we consider to be particularly critical to establishing long-term success in a developing/emerging market – is based on different pricing tiers. We have seen a number of companies differentiate amongst the tiers in the following ways: packaging/branding, manufacturing and distribution.

For example, the lowest, poorest, rural tiers are accessed by keeping costs to a minimum through local or outsourced production, different packaging/brand name, and distribution via development agencies and missionary groups. These steps are aimed at clearly differentiating one tier to the next and overcoming concerns of medications produced for poorer tiers being sold at lower prices to wealthier patients. This also means that companies can still have presence across the country and establish the corporate brand along the socioeconomic spectrum. The business model at lower tiers seeks to break-even or make a slim profit.

Importantly, it also switches the corporate mentality and approach from a purely philanthropic activity to one that is delivering commercial opportunities.

⁹ For more information on our engagement and assessment of specific companies, *reio* clients should refer to the client-only confidential Appendix of this piece.

Conclusion and next steps

Pharmaceutical companies are faced with a great opportunity to capitalise on the long-term growth potential in the developing world. There has been a realisation amongst some that a blunt go-to-market approach rarely results in the desired commercial success and that a tailored approach is required to place themselves in a position to enjoy the improvements in the country's economic fortunes.

Our engagement over the past ten years in this issue with the industry has driven the adoption of important practices. Our focus has primarily been on the largest companies in the industry but the challenge is to ensure that the wide range of players in the global healthcare market also adopt the innovative mind-set that we now see among the companies in the "Leaders" category.

As a next step, we will consider the analysis and findings of the 2016 Access to Medicine Index. We will also engage companies such as Roche on its plans in this area in the coming years. We will continue our dialogue with various stakeholders, including the ATM Foundation. The key objectives will continue to be establishing commercial success for companies in fast-growing developing markets and ensuring billions of the poorest people in the world have better access to an adequate standard of healthcare.

The information, opinions, estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time.

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Committee and date
Pensions Committee

17 March 2017

10.00am

Item

Public

PENSIONS ADMINISTRATION MONITORING REPORT

Responsible Officer Debbie Sharp

Email: Debbie.sharp@shropshire.gov.uk

Tel: 01743 252192

Fax: N/A

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.

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 introduced by the Public Services Pension Act 2013 has increased 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. LGPS having to fully index GMP's will increase costs for the Fund going forward. Further compliance with TPR code has highlighted areas where further costs could be incurred.

4. Performance and Team Update

- 4.1 The team's output and performance level to the end of **January 2017** is attached at **Appendix A**. The chart shows encouraging numbers of workflow procedures completed and also the percentage of those that were completed on time. The number of outstanding procedures has also dropped to a level not seen for some time this is as a result of directing team members to focus on certain areas of work in readiness for Year End.
- 4.2 The team have worked on getting more employers to send data through the iConnect service. This has meant that the new "online" version has been made available to smaller employers, which allows them to input data online rather than submitting a spreadsheet that the team have to then manually upload. To date there are now 52 employers using this method and 54 employers who load an extract. Guides were issued and in some cases site visits or telephone training was undertaken to provide support and training.
- 4.3 The team are working with the remaining employers to ensure that they have a working extract in place for April 2017 data to load through iConnect early May. This should mean that all employers will then be sending data electronically to the Pensions Administration System. The team are also looking at processes to ensure a smooth transition for new employers or those who change their payroll provider to eliminate any further manual spreadsheet returns.
- 4.4 A project has commenced looking at the current workflow system. Enhancements for analysing outstanding procedures were implemented in the latest software release which means that the current procedures need reviewing. The team will be looking at the set up and reporting of statistics. Priority will be given to the "Top 10" procedures initially.
- 4.5 The team's risk log has been updated and the risks identified are listed at **Appendix B**. Following amendments to the Council's Service Recovery Plan template, this has also been updated. Training sessions were held and attended by the Pensions Manager and Systems Team Leader.

5. Help Desk Statistics

- 5.1 The following chart shows the number of queries received through the helpline number.

	Nov 2016	Dec 2016	Jan 2017
Telephone calls received	659	402	716
Queries dealt with by helpdesk at first point of contact %*	92.56%	93.27%	92.87%
Users visiting the Website	1741	1555	1704

* 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.

6. Communications

- 6.1 Work is underway to issue Annual Benefit Statements to deferred members electronically through Member Self Service (MSS) this year. To meet the requirements set out in The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, scheme members must be written to three times to inform them of the change to electronic communication and be given the opportunity to opt to continue to receive paper copies. Communication was started in 2016 with deferred members and a further two notifications will be sent in March 2017 and June 2017 to deferred members.
- 6.2 Each April the Fund issues a combined P60, April payslip and pensions increase notification to Pensioners. This year's project is underway and test data is currently being worked on. A copy of the pensioner's newsletter 'InTouch' is also being sent. Payslips and P60s continue to be available for pension members to view online if they wish.
- 6.3 The Fund has worked hard with employers to ensure each participating employer in the Fund has a discretions policy in place. To assist employers a template was purchased from the LGA which provided comprehensive guidance on making a policy including suggested wording. This has been helpful and there has been an increase in the number of discretions policies the Fund now has. Visits have also been made to various employers around the County to provide one to one guidance. The Fund no longer issues any quotations to members if they require an exercise of a discretion if their employer has not got the appropriate policy in place. The Fund has 8 employers who still have not made a discretion policy and these employers have been recorded on the breaches log.

7. The Pensions Regulator (TPR) Compliance Monitoring Framework

- 7.1 It's important that the administration of the Shropshire County Pension is regularly reviewed to identify any areas that need updating or improving. This is in accordance with the Public Service Pensions Act 2013 and the reason why the Pensions Board was established back on

1 April 2015. Under the Act, the Pensions Board has responsibility for assisting the Scheme Manager to secure compliance with the scheme regulations. A review was undertaken in January 2017 and presented to the Pensions Board against the statutory requirements imposed on the Fund and the guidance in the Pensions Regulator's Code of Practice 14. The Pensions Regulator's Code of Practice is attached at Appendix C.

7.2 This was a significant piece of work to undertake and the Fund has made an initial assessment on its perceived level of compliance. Each area specified in the Code of Practice has been given a compliance RAG rating (red, amber or green) to help identify any areas where the Fund is non-compliant. Throughout the TPR's Code of Practice the term 'must' is used where there is a legal requirement. The term 'should' is used to refer to practical guidance and the standards expected by the TPR. The Fund has prioritised the areas of compliance described in the Code of Practice as 'must' and where these have been RAG rated as either amber or red. The assessment identified five priority areas which require improvement. All five are a legal requirement where 'must' has been used in the Code of Practice and have been rated as 'amber' meaning requiring investigation. Any areas identified where the term 'should' has been used will be investigated once the priority areas have been resolved. There are no areas identified in the self-assessment as being Red. The areas identified for improvement are:

- **Governing your Scheme**
Areas of knowledge and understanding required
- **Administration**
Records of member information
Benefit Statements
When basic Scheme information must be provided
- **Resolving issues**
Internal Dispute Resolution Procedure

7.3 Two of the areas identified are aligned to the findings of the Regulator's own survey of compliance which it undertook with all LGPS Fund's. These areas are record keeping and communications to members. A summary of the assessment exercise and where the priority areas have been found was provided to the Pensions Board. The next review will be undertaken in July 2017 and the developments reported to the Pensions Committee and Pensions Board.

7.4 As part of the TPR compliance review the Fund has looked in detail at the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 which requires the Scheme Manager to keep specific data about members.

7.5 There are improvements that can be made in this area and the Fund has recently undertaken a review to establish any additional processes which should be introduced to ensure completeness and accuracy of

information held. There are gaps in the address data held for deferred Scheme members; identified when post has been returned to the Pensions Team and as a result the member has been recorded on the Pensions Administration system as 'gone away'. Currently, member tracing is undertaken when benefits are due for payment, although it is recognised that this type of exercise is required more often. There is not currently enough staffing resource to undertake this exercise on an annual basis.

- 7.6 The Fund is using the Pensions Regulators guidance to implement a data improvement exercise to specifically tackle the issue of missing addresses and a project is currently underway to identify and update the inaccurate addresses held on the Pensions Administration System. The Fund is obtaining quotations from companies who specialise in tracing 'gone away' members, to work with the Fund across certain categories of membership to improve the records. There is also merit in looking into a mortality screening exercise at the same time to establish whether members have passed away. However, the Fund does participate in the LGPS National Insurance Database which means that a notification will be received if a member dies and is in another LGPS Fund, as this avoids the payment of two death grants which is not permitted under the LGPS regulations. The Fund also participates in the national Tell Us One (TUO) death notification service. These services however do not tackle any historical non notifications of deaths.

8. System Disaster Recovery

- 8.1 A Disaster Recovery (DR) exercise took place on 13th December 2016. This tests that the Pensions Administration System can be moved to and run on a back-up server in the event of the main server not being available. Currently the system is run from a server at the Shirehall with a mirror back-up server at Nuneaton.
- 8.2 A test plan is agreed in advance and pre-tests are undertaken. This ensures totals from the system are logged which can then be checked and balanced at each part of the recovery process. On the morning of the DR all users are locked out of the system except for those involved in the process. For the first time a user worked off site to test if the mirror server could be accessed remotely.
- 8.3 IT undertook the move to the off-site mirror server and then Fund staff tested the access. When tests were completed, IT moved the system back to the main server for Fund staff to complete final checks and ensured Altair was running successfully again before then being made available to all users.
- 8.4 The DR went well and the systems successfully transferred to the server at Nuneaton and back to the main server. It was also proved that a user could access the off-site server remotely. However, it was confirmed, that the mirror server is considerably slower than the main

server, with only 3 users. The report writer tool worked with a small report but had to be aborted when running a larger one, again down to the smaller size of the server.

8.5 It was concluded that the mirror server would not be robust enough for all the Pensions Team to access at the same time and therefore only a small number could use the system for a limited time.

8.6 Alternative DR provision must therefore be sourced.

9. Hosting, Payroll and Enhanced MSS

9.1 The team have been meeting with IT with regards to Shropshire Council's (the Council) strategy for systems Hosting. Assurance is needed that our current provision is robust or whether external hosting services should be looked into.

9.2 It is understood that as part of the Council's digital transformation the replacement systems it is currently tendering for will be externally hosted.

9.3 The Council is tendering amongst other things for an alternative payroll system. The Fund therefore is having to look into the alternatives for running the Pensioner payroll. The current system used by the Council, Resource Link, is a system set up for payments for a staff payroll. It has been considerably hard to apply this set up for the payment and increases for Pensioners. In the past there have been very little alternatives to look at but there is now an option to use Altair payroll. This would be a "bolt on" to the current Altair system and would mean that payments could interface to Altair payroll from the Administration systems. This would mean information is held on the same database ensuring consistency, accuracy and security of data.

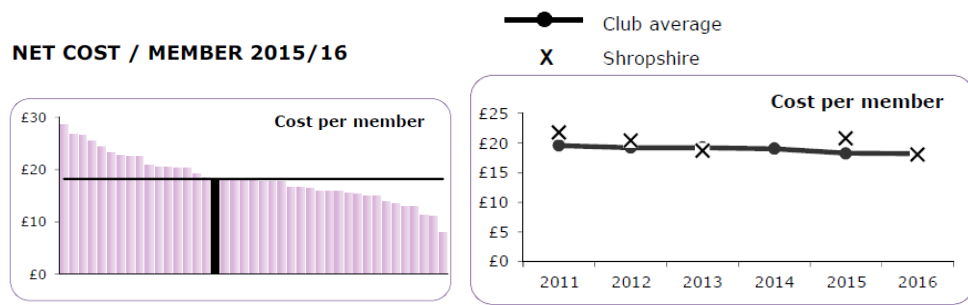
9.4 An enhanced version of the Member Self Service facility is also being looked at. This provides improved content management tools; fully supports multiple devices such as tablets and mobile phones; provides significant enhancements to the "look and feel" of the platform for members and far greater flexibility for Fund customisation. The use of MSS is increasing significantly following Annual Benefit Statements now being available on-line and not posting a paper copy.

9.5 As a result of needing to future proof the payment of pensions and needing to ensure the online member experience is improved, further discussions have taken place with IT on whether additional hardware is required or whether virtual hosting can be used in the meantime. Costs are awaited from IT. But this together with the fact that the other main Councils systems will be externally hosted it is looking likely that a decision will need to be made soon on whether the Fund needs to look at an external hosting solution within the next financial year.

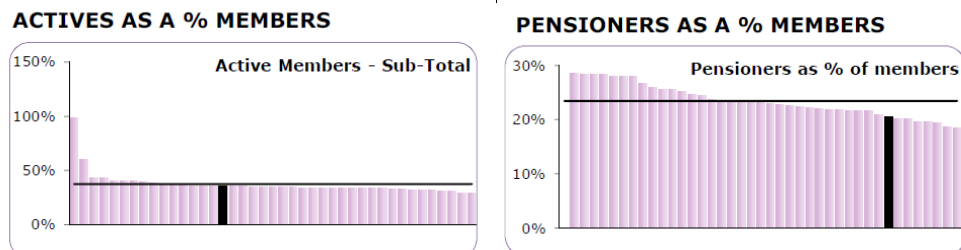
10. Benchmarking

10.1 The Pensions Administration Benchmarking Club has been in operation for some time and compares the cost of Pensions Administration with other Pension Funds nationally including some out-sourced to private contractors.

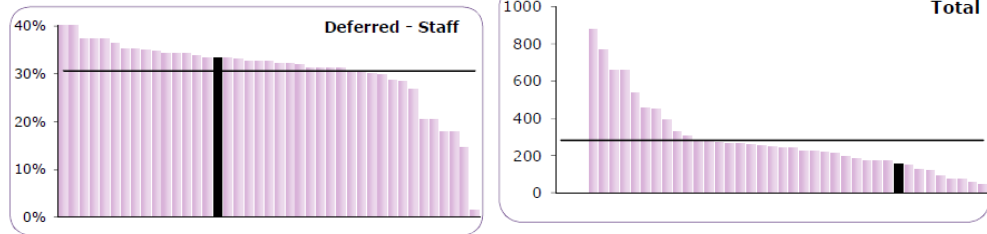
10.2 The following bar chart shows Shropshire is just below the group average of £18.18 per member at £18.04 per member. The second chart shows Shropshire's position against the average cost since 2011. (Benchmarking was not undertaken in 2013/14). You will see that the cost per member has reduced in 2016 compared to 2015. The Fund invested in staff in 2014 as a pre-emptive measure for the introduction of the new Scheme. Other Funds have since had to do a similar as now shown in the charts. However there are still some areas of work that the team are struggling to undertake and the existing staffing structure is currently being reviewed.



10.3 The following charts show the composition of members as at 31 March 2016. It shows that the Fund has just below average proportion of actives at 35.9%, the average is 37.2%, above average of deferred beneficiaries and a lower than average number of pensioners. The fourth chart also shows that the number of employers in the Fund is below the average. However, the number of employers in the fund is continuing to rise. This is partly down to the fact that after a slow start we are now seeing larger number of Schools converting to Academies across Shropshire Schools. And with the Central Government push for schools to convert this is directly impacting on the staffing resource in the Team.

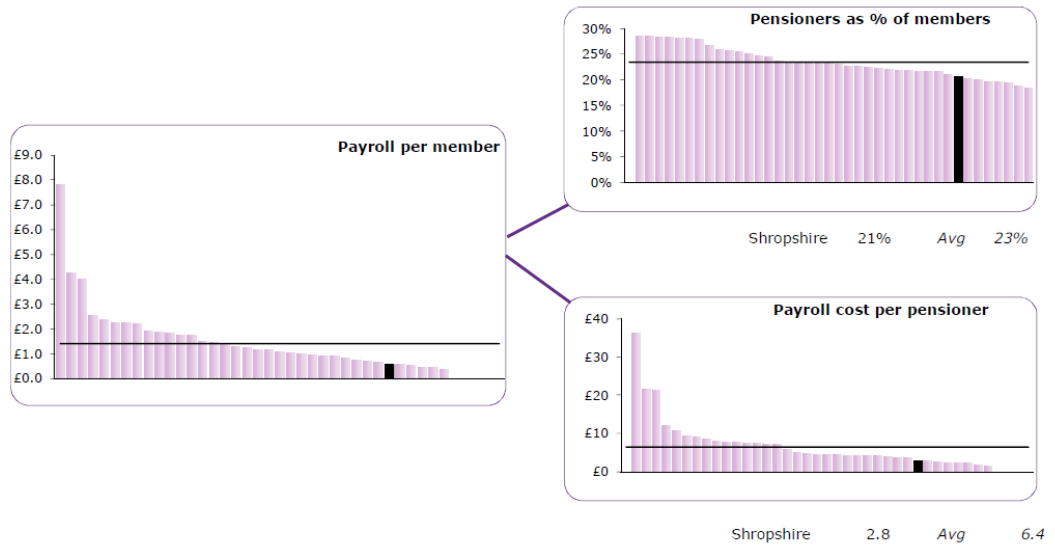


NUMBER OF LGPS EMPLOYERS



10.4 The following charts show the payroll cost per member. You can see that the average is £1.41 and Shropshire is 0.57p per member. This has always been a low cost historically as employer work was always undertaken by the Fund so a recharge was not made for utilising the Council’s payroll software. This has been reviewed for transparency and will change going forward.

	£'000	£ per member	Avg
Payroll (combined)	27	0.57	1.41



11. Regulation Update

11.1 On 4 October 2016, the Department of Communities and Local Government published new late retirement guidance for the LGPS in England and Wales. The guidance is effective from 4 January 2017. The three month period between the issue of the guidance and the effective date reflects the fact that the new factors are significantly less favourable to an LGPS member than the current factors.

11.2 The new pensions uplift for late retirements is 71.4% of the current rate (0.010% per day compared to the current rate of 0.014% per day) and the new automatic lump sum uplift is 14.3% of the current rate (0.001% per day compared to the current rate of 0.007% per day).

12. GMP Reconciliation Update

- 12.1 In November 2016 HMRC published further information on the ceasing of contracting out, focusing on the reconciliation of active member records and in particular an exercise called the closure scan. The closure scan will automatically close open periods of contracted out employment held on HMRC records, using the Scheme Contracted-out Number (SCON) provided by Employers on their Full Payment Submissions (FPS). The Fund has completed and returned its closure scan request to HMRC before the required deadline.
- 12.2 The Fund continues to work with ITM on the second phase on reconciliation for Deferred and Pensioners members' GMP's. It is looking most likely that the rectification phase will also need to be undertaken by a third party.

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

Pensions Committee Meeting 25 November 2016 Pensions Administration Report
Pensions Board Agenda Reports from meeting on 5 February 2017

Cabinet Member (Portfolio Holder)

NA

Local Member

NA

Appendices

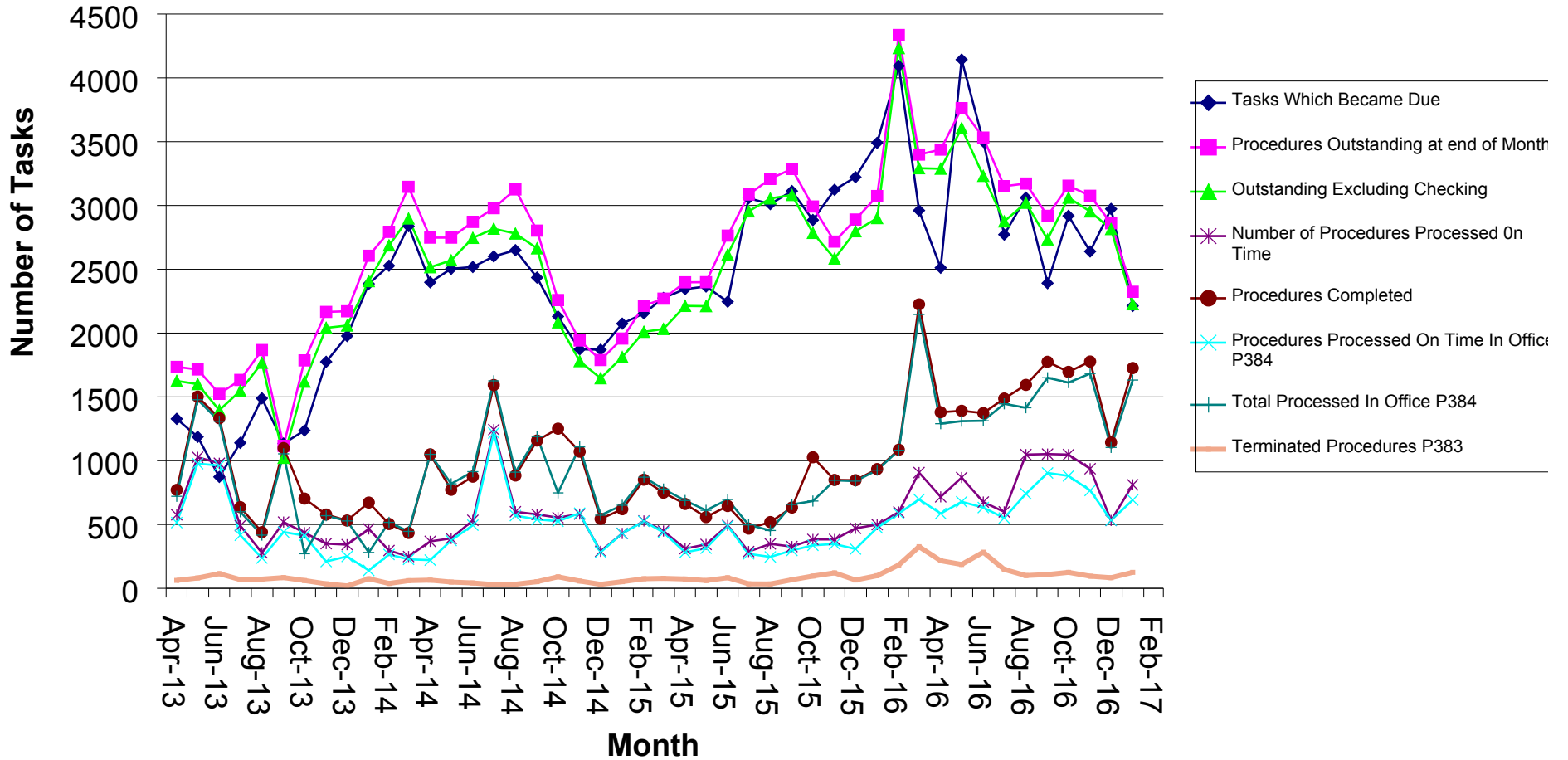
Appendix A – Performance Monitoring

Appendix B – Risk Log

Appendix C – Pensions Regulators Code of Practice 14

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Task Statistics



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Appendix B

Risks taken from Risk Log January 2017

Description of Risk	Current Controls In Place	Risk Exposure
Incorrect information / benefits - provided to members of the scheme	Benefits calculations are checked. All supporting calculations are provided to the member. Team Training. Employer Training.	Med
The insolvency of an employer places additional liabilities on the Fund and ultimately the remaining employers. Orphan liabilities.	Admission agreements, bonds in some cases. Shorter deficit recovery periods. FSS. Annual Employer covenant check .	V Low
Vulnerable to loss of or over-reliance of key staff due to long term sickness or staff turnover resulting in reduction of service to scheme employers.	Procedures notes updated. Team restructured in 2014 to allow for succession planning. Training undertaken in 2015. Training Policy put in place and training log.	Med
Failure of ITC, hardware supported by SC, impacting adversely ability to run Altair pension administration system.	DR in place. Tested annually. Reliance on SC inhouse IT department	Med
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.	Reliance on SC IT	Med
Failure of telephony system: Lync phones- resulting in no communication with customers	Reliance on SC IT	Med
Failure of Administration Team to perform their tasks, including for the reason of lack of resource specifically leading to incorrect; data, triennial Fund valuations or failure to provide accurate and timely advice to employers.	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.	Med

Failure of Employers to provide accurate data leading to incorrect benefit statement / payments or Fund valuations.	Employer training. Communication. Administration Strategy Statement. Team training. Internal controls including contribution collection audits and positive action by Pension Team. Iconnect implemented for the 2 largest employers. Employers trained on TPR code. Monthly returns for some employers. Employer training to cover errors picked up on year end returns. Introduced Breaches recording & reporting.	High
Loss of personal data leading to fines and reputational loss	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.	Med
Late payment of contributions by Fund Employers leading to Pension Fund having to report to TPR and possible be fined.	Employer training / guidance on website. Employer newsletter. Contributions check & balance. Adhere to internal governance compliance statement. Adherence to TPR code of practice	Med
Policies or strategies of the Administering Authority adversely impacting on the work of the Pensions Team for the Shropshire County Pension Fund	Segregation of duties, delegated decision making to Pensions Committee and Scheme Administration (Section 151 officer). Quarterly report to Pensions Committee on Administration. Embedding of Pensions Board and Pensions Regulator Code and Scheme Advisory Board	High

<p>Not undertaking work to reconcile GMP data in line with ending of contracting out legislation resulting in possible overpayments and additional costs to the Pension Fund.</p>	<p>GMP's have historically been processed when received and leavers notified to HMRC. Any missing ones for pensioners requested. Initial work was undertaken in 15/16 to identify size of issue. Decision made for stage 1 &2 to be undertaken by third party during 2016/17.</p>	<p>Med</p>
<p>Members and officers lack the skills and knowledge required to make informed decisions on behalf of the stakeholders, leading to adverse performance feedback, potential legal challenge and poor value for money.</p>	<p>Member training plan in place. Training requirement audit undertaken. Access to on-line TPR training tools and expert advisors. Officer Training plan in place fed by PDR's. Attendance at national and regional forums and collaborative working with other Funds.</p>	<p>Low</p>
<p>Failure to identify and report breaches of the law, in accordance with the requirements of the Pensions Regulator leading to reputational damage, fines and criminal penalties.</p>	<p>Breaches Policy in place together with log which is reported to Committee, Board and Fund Administrator. Training undertaken by key staff.</p>	<p>Med</p>
<p>Non compliance with the law around LGPS Benefit Administration leading to fines by the Pensions Regulator and loss of confidence in the Fund.</p>	<p>The use of a good LGPS administration software solution together with staff training mitigates the risks to the Council. The Council is part of a consortium for the current system CLASS which keeps the cost of development down by funding coming from a pooled resource.</p>	<p>Med</p>

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Code of practice no. 14

Governance and administration of public service pension schemes

April 2015

Page 189

**The Pensions
Regulator**

Code of practice no. 14

Governance and administration of public service pension schemes

Presented to Parliament pursuant to Section 91(5) of the Pensions Act 2004

Draft to lie before Parliament for forty days, during which time either House may resolve that the code be not made.

Presented to the Northern Ireland Assembly pursuant to Article 86(5) of the Pensions (Northern Ireland) Order 2005

Draft to lie before the Northern Ireland Assembly for ten days on which the Assembly has sat or thirty calendar days whichever period is the longer, during which time the Assembly may resolve that the code be not made.

12 January 2015

Code of practice no. 14

Governance and administration of public service pension schemes

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Introduction

1. This code of practice is issued by The Pensions Regulator ('the regulator'), the body that regulates occupational and personal pension schemes provided through employers.
2. The regulator's statutory objectives¹ are to:
 - protect the benefits of pension scheme members
 - reduce the risks of calls on the Pension Protection Fund (PPF)
 - promote, and improve understanding of, the good administration of work-based pension schemes
 - maximise compliance with the duties and safeguards of the Pensions Act 2008
 - minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the regulator's functions under Part 3 of the Pensions Act 2004 only).
3. The regulator has a number of regulatory tools, including issuing codes of practice, to enable it to meet its statutory objectives.
4. Codes of practice provide practical guidance in relation to the exercise of functions under relevant pensions legislation and set out the standards of conduct and practice expected from those who exercise those functions².

Status of codes of practice

5. Codes of practice are not statements of the law and there is no penalty for failing to comply with them. It is not necessary for all the provisions of a code of practice to be followed in every circumstance. Any alternative approach to that appearing in the code of practice will nevertheless need to meet the underlying legal requirements, and a penalty may be imposed if these requirements are not met. When determining whether the legal requirements have been met, a court or tribunal must take any relevant provisions of a code of practice into account³.
6. If there are grounds to issue an improvement notice⁴, the regulator may issue a notice directing a person to take, or refrain from taking, such steps as are specified in the notice. These directions may be worded by reference to a code of practice issued by the regulator⁵.

This code of practice

7. The Public Service Pensions Act 2013 (the 2013 Act) introduces the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by the regulator.

¹ Section 5(1) of the Pensions Act 2004.

² Section 90A(1), *ibid.*

³ Section 90A(5), *ibid.*

⁴ Where the regulator considers that legal requirements are not being met, or have been contravened in circumstances which make it likely that the breach will continue or be repeated, it may issue an improvement notice under s13 of the Pensions Act 2004.

⁵ Section 13(3) of the Pensions Act 2004.

8. The regulator is required to issue one or more codes of practice covering specific matters relating to public service pension schemes⁶. This code of practice sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.
9. The practical guidance sections in this code are not intended to prescribe the process for every scenario. They do, however, provide principles, examples and benchmarks against which scheme managers and members of pension boards can consider whether or not they have understood their duties and obligations and are reasonably complying with them.
10. If scheme managers and the members of pension boards are, for any reason, unable to act in accordance with the guidance set out in this code, or an alternative approach that meets the underlying requirements, they should consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law⁷. For further information, see the section of this code on 'Reporting breaches of the law'.

At whom is this code directed?

11. This code relates to public service pension schemes within the meaning of the Pensions Act 2004⁸. These are schemes established under the 2013 Act, new public body pension schemes and other statutory pension schemes which are connected to those schemes. It does not apply to schemes in the wider public sector, nor to any scheme which is excluded from being a public service pension scheme within the meaning of the Pensions Act 2004.
12. This code is particularly directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes. Scheme managers must comply with various legal requirements relating to the governance, management and administration of public service pension schemes. Pension boards must also comply with certain legal requirements, including assisting scheme managers in relation to securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme, any requirements of the regulator and with any other matters specified in scheme regulations. The role, responsibilities and duties of pension boards will vary. Where pension boards are not directly responsible for undertaking particular activities, they remain accountable for assisting the scheme manager in securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme, any requirements of the regulator and with any other matters for which they are responsible under the scheme regulations⁹.

⁶
Section 90A(2) of the Pensions Act 2004.

⁷
Section 70, *ibid.*

⁸
Section 318, *ibid.*

⁹
Section 5 of the Public Service Pensions Act 2013.

13. In addition, the legal requirement to report breaches of the law under section 70 of the Pensions Act 2004 applies to other persons involved in public service pension schemes, so this code is also directed at them.
14. Scheme managers and pension boards (where relevant) may be able to delegate some activities to others, or outsource them, although they will not be able to delegate their accountability for complying with a legal requirement imposed on them. This code should therefore be followed by anyone to whom activities relating to the legal requirements covered by this code have been delegated or outsourced.
15. Employers participating in public service pension schemes will also find the code a useful source of reference. The role and actions of employers can be critical in enabling scheme managers to meet certain legal requirements¹⁰.
16. Public service pension schemes are established primarily as defined benefit (DB) schemes. Some of these schemes also enable members to make additional voluntary contributions (AVCs) on either a DB basis or to a separate defined contribution (DC) scheme. There are also some DC schemes which are offered as alternatives to the DB schemes. This code applies to any DC scheme which is a public service pension scheme within the meaning of the Pensions Act 2004.

Terms used in this code

17. **The 2013 Act** – the Public Service Pensions Act 2013, which sets out the arrangements for the creation of schemes for the payment of pensions and other benefits. It provides powers to ministers to create such schemes according to a common framework of requirements.
18. **Public service pension schemes**¹¹ – these are (a) new public service pension schemes set up under section 1 of the 2013 Act (including any scheme which has effect as such a scheme¹²); (b) new public body pension schemes (within the meaning of the 2013 Act) and (c) any statutory pension schemes connected with a scheme described in (a) or (b). Substantially, these are the schemes providing pension benefits for civil servants, the judiciary, local government workers, teachers, health service workers, fire and rescue workers, members of police forces and the armed forces. Except where specified otherwise, the legal requirements and practical guidance set out in this code apply to any kind of public service pension scheme within the meaning of the Pensions Act 2004, whether it is a scheme established under section 1 of the 2013 Act, a new public body scheme or a connected scheme.

10
Employers participating in occupational public service pension schemes are under a statutory duty to report breaches of the law under s70 of the Pensions Act 2004.

11
As defined in s318 of the Pensions Act 2004. Under s318(6) of that Act, a scheme which would otherwise fall within the definition of 'public service pension scheme' in the Pensions Act 2004 does not do so if it is a scheme providing only for injury or compensation benefits (or both), or if it is specified in an order made under that section.

12
Section 28 of the 2013 Act.

19. **Connected scheme** – a scheme established under section 1 of the 2013 Act and another statutory pension scheme, or a new public body pension scheme and another statutory pension scheme are connected if and to the extent that the schemes make provision in relation to persons of the same description. Scheme regulations may specify exceptions¹³.
20. **Responsible authority** – the 2013 Act identifies secretaries of state/ ministers, each being the responsible authority for their schemes, who have power to make the scheme regulations for the relevant schemes¹⁴. The responsible authority may also be the scheme manager¹⁵. In relation to a public body pension scheme, references in the code to the responsible authority are to be read as references to the public authority which established the scheme.
21. **Scheme regulations** – each new scheme made under section 1 of the 2013 Act has scheme regulations which set out the detail of the membership and benefits to be provided under the scheme¹⁶. The regulations must identify scheme managers and provide for the establishment of pension boards and scheme advisory boards. These regulations constitute the main rules of the scheme. In addition to the scheme regulations, the rules of a scheme include:

- certain legislative provisions, to the extent that they override provisions of the scheme regulations, or which have effect in relation to a scheme and are not otherwise reflected in the scheme regulations, and
- any provision which the scheme regulations do not contain but which the scheme rules must contain if it is to conform with the requirements of Chapter 1 of Part 4 of the Pension Schemes Act 1993 (preservation of benefit under occupational pension schemes)¹⁷.

Some connected schemes and new public body pension schemes will not be established by regulations, so references in the code to scheme regulations should be read as references to the rules of the scheme in these cases.

22. **Scheme manager** – each public service pension scheme has one or more persons responsible for managing or administering the scheme¹⁸. Public service pension schemes can have different persons acting as scheme manager for different parts of the pension scheme. For the locally administered schemes¹⁹, the scheme managers may be the local administering authorities or a person representing an authority or police force.

13
Section 4(6) and (7) of the 2013 Act.

14
Section 2 and Schedule 2, *ibid.*

15
Section 4(3), *ibid.*

16
Section 3 and Schedule 3, *ibid.*

17
Section 318(2) of the Pensions Act 2004.

18
Section 4 and s30 of the 2013 Act.

19
Locally administered schemes include the schemes for England, and Wales, and Scotland for local government workers, and England and Wales for fire and rescue workers and members of police forces.

23. **Pension board** – the scheme manager (or each scheme manager) for a scheme has a pension board²⁰ with responsibility for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator. The pension board must also assist the scheme manager with such other matters as the scheme regulations may specify. It will be for scheme regulations and the scheme manager to determine precisely what the pension board’s role, responsibilities and duties entail.
24. **Scheme advisory board** – each DB public service pension scheme has a scheme advisory board²¹ with responsibility for providing advice on the desirability of changes to the scheme, when requested to do so by the responsible authority (or otherwise, in accordance with scheme regulations). Where there is more than one scheme manager the scheme regulations may also provide for the scheme advisory board to provide advice (on request or otherwise) to the scheme managers or the scheme’s pension boards on the effective and efficient administration and management of the scheme or any pension fund of the scheme.
25. **Schemes** – in this code the term ‘schemes’ is used throughout where actions to comply with a legal requirement, standard or expectation may be carried out by the scheme manager, pension board or by another person(s) including those to whom activities have been delegated or outsourced. The scheme manager or pension board will be ultimately accountable, depending upon to whom the legal obligation applies under the legislation.
26. **Must** – in this code the term ‘must’ is used where there is a legal requirement.
27. **Should** – in this code the term ‘should’ is used to refer to practical guidance and the standards expected by the regulator.

How to use this code

28. The code is structured as a reference for scheme managers and pension boards to use to inform their actions in four core areas of scheme governance and administration: governing your scheme, managing risks, administration and resolving issues.
29. Each core section includes practical guidance to help scheme managers and pension boards to discharge their legal duties. The regulator recognises that there may be alternative and justifiable actions or approaches that scheme managers or pension boards may wish to adopt, provided these meet the minimum legal requirements.
30. Schemes will need to consider and apply the practical guidance to suit their own particular characteristics and arrangements.

20
Section 5 and s30(1) of the 2013 Act (in the case of new public body schemes, if the scheme has more than one member).

21
Section 7, *ibid*. This requirement only applies to schemes set up under s1 of the 2013 Act.

Northern Ireland

31. References to the law that applies in Great Britain should be taken to include corresponding legislation in Northern Ireland. References to HM Treasury directions should be taken to be directions by the Department of Finance and Personnel. The responsible authority for each scheme is the relevant government department²².
32. The appendix to this code lists the corresponding references to Northern Ireland legislation.

²²
Section 2 and Schedule 2 of the Public Service Pensions Act (Northern Ireland) 2014.

Governing your scheme

33. This part of the code covers:

- knowledge and understanding required by pension board members
- conflicts of interest and representation, and
- publishing information about schemes.

Knowledge and understanding required by pension board members

Legal requirements

34. A member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme²³, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

35. A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

36. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board²⁴.

Practical guidance

37. The legislative requirements about knowledge and understanding only apply to pension board members. However, scheme managers should take account of this guidance as it will support them in understanding the legal framework and enable them to help pension board members to meet their legal obligations.

38. Schemes²⁵ should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members. Schemes should designate a person to take responsibility for ensuring that a framework is developed and implemented.

39. However, it is the responsibility of individual pension board members to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board.

23

See paragraph 21 for the definition of the 'rules of the scheme'.

24

Section 248A of the Pensions Act 2004.

25

See paragraph 25 for the definition of 'schemes'.

Areas of knowledge and understanding required

40. Pension board members must be conversant with their scheme rules, which are primarily found in the scheme regulations²⁶, and documented administration policies currently in force for their pension scheme²⁷. Being 'conversant' means having a working knowledge of the scheme regulations and policies, so that pension board members can use them effectively when carrying out their duties.
41. They must also have knowledge and understanding of the law relating to pensions (and any other matters prescribed in legislation) to the degree appropriate for them to be able to carry out their role, responsibilities and duties.
42. In terms of documented administration policies, specific documents recording policy about administration will vary from scheme to scheme. However, the following are examples of administration policies which the regulator considers to be particularly pertinent and would expect to be documented where relevant to a pension scheme, and with which pension board members must therefore be conversant where applicable²⁸. This list is not exhaustive and other documented policies may fall into this category:
 - any scheme-approved policies relating to:
 - conflicts of interest and the register of interests
 - record-keeping
 - internal dispute resolution
 - reporting breaches
 - maintaining contributions to the scheme
 - the appointment of pension board members
 - risk assessments/management and risk register policies for the scheme
 - scheme booklets, announcements and other key member and employer communications, which describe scheme policies and procedures
 - the roles, responsibilities and duties of the scheme manager, pension board and individual pension board members
 - terms of reference, structure and operational policies of the pension board and/or any sub-committee
 - statements of policy about the exercise of discretionary functions

²⁶
See paragraph 21 for the definition of the 'rules of the scheme'.

²⁷
Section 248A(2) of the Pensions Act 2004.

²⁸
Section 248A(2)(b) of the Pensions Act 2004.

- statements of policy about communications with members and scheme employers
 - the pension administration strategy, or equivalent²⁹, and
 - any admission body (or equivalent) policies.
43. For pension board members of funded pension schemes, documents which record policy about the administration of the scheme will include those relating to funding and investment matters. For example, where relevant they must be conversant with the statement of investment principles and the funding strategy statement³⁰.
44. Pension board members must also be conversant with any other documented policies relating to the administration of the scheme. For example, where applicable, they must be conversant with policies relating to:
- the contribution rate or amount (or the range/variability where there is no one single rate or amount) payable by employers participating in the scheme
 - statements of assurance (for example, assurance reports from administrators)
 - third party contracts and service level agreements
 - stewardship reports from outsourced service providers (for example, those performing outsourced activities such as scheme administration), including about compliance issues
 - scheme annual reports and accounts
 - accounting requirements relevant to the scheme
 - audit reports, including from outsourced service providers, and
 - other scheme-specific governance documents.
45. Where DC or DC AVC options are offered, pension board members should also be familiar with the requirements for the payment of member contributions to the providers, the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.
46. Schemes should prepare and keep an updated list of the documents with which they consider pension board members need to be conversant. This will enable them to effectively carry out their role. They should make sure that both the list and the documents are available in accessible formats.

²⁹
For the local government pension schemes, this might include information about the setting of performance targets or making agreements about levels of performance.

³⁰
Section 248A(2)(b) of the Pensions Act 2004.

Degree of knowledge and understanding required

47. The roles, responsibilities and duties of pension boards and their individual members will vary between pension schemes. Matters for which the pension board is responsible will be set out in scheme regulations³¹. Clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards should be set out in scheme documentation.
48. Schemes should assist individual pension board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties as a pension board member.
49. Pension board members must have a working knowledge of their scheme regulations and documented administration policies. They should understand their scheme regulations and policies in enough detail to know where they are relevant to an issue and where a particular provision or policy may apply.
50. Pension board members must have knowledge and understanding of the law relating to pensions (and any other prescribed matters) sufficient for them to exercise the functions of their role. Pension board members should be aware of the range and extent of the law relating to pensions which applies to their scheme, and have sufficient understanding of the content and effect of that law to recognise when and how it impacts on their responsibilities and duties.
51. Pension board members should be able to identify and where relevant challenge any failure to comply with:
 - the scheme regulations
 - other legislation relating to the governance and administration of the scheme
 - any requirements imposed by the regulator, or
 - any failure to meet the standards and expectations set out in any relevant codes of practice issued by the regulator.
52. Pension board members' breadth of knowledge and understanding should be sufficient to allow them to understand fully and challenge any information or advice they are given. They should understand how that information or advice impacts on any issue or decision relevant to their responsibilities and duties.

³¹
Section 5(2) of the 2013
Act.

53. Pension board members of funded pension schemes should ensure that they have the appropriate degree of knowledge and understanding of funding and investment matters relating to their scheme to enable them to effectively carry out their role. This includes having a working knowledge of provisions in their scheme regulations and administration policies that relate to funding and investment, as well as knowledge and understanding of relevant law relating to pensions.
54. All board members should attain appropriate knowledge so that they are able to understand the relevant law in relation to their scheme and role. The degree of knowledge and understanding required of pension board members may vary according to the role of the board member, as well as the expertise of the board member. For example, a board member who is also a pensions law expert (for instance, as a result of their day job) should have a greater level of knowledge than that considered appropriate for board members without this background.

Acquiring, reviewing and updating knowledge and understanding

55. Pension board members should invest sufficient time in their learning and development alongside their other responsibilities and duties. Schemes should provide pension board members with the relevant training and support that they require. Training is an important part of the individual's role and will help to ensure that they have the necessary knowledge and understanding to effectively meet their legal obligations.
56. Newly appointed pension board members should be aware that their responsibilities and duties as a pension board member begin from the date they take up their post. Therefore, they should immediately start to familiarise themselves with the scheme regulations, documents recording policy about the administration of the scheme and relevant pensions law. Schemes should offer pre-appointment training or arrange for mentoring by existing pension board members. This can also ensure that historical and scheme-specific knowledge is retained when pension board members change.
57. Pension board members should undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. They should use a personalised training plan to document and address these promptly.

58. Learning programmes should be flexible, allowing pension board members to update particular areas of learning where required and to acquire new areas of knowledge in the event of any change. For example, pension board members who take on new responsibilities will need to ensure that they gain appropriate knowledge and understanding relevant to carrying out those new responsibilities.
59. The regulator will provide an e-learning programme to help meet the needs of pension board members, whether or not they have access to other learning. If schemes choose alternative learning programmes they should be confident that those programmes:
- cover the type and degree of knowledge and understanding required
 - reflect the legal requirements, and
 - are delivered within an appropriate timescale.

Demonstrating knowledge and understanding

60. Schemes should keep appropriate records of the learning activities of individual pension board members and the board as a whole. This will help pension board members to demonstrate steps they have taken to comply with legal requirements and how they have mitigated risks associated with knowledge gaps. A good external learning programme will maintain records of the learning activities of individuals on the programme or of group activities, if these have taken place.

Conflicts of interest and representation

Legal requirements

61. A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the pension board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established³².
62. In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:
- that a person to be appointed as a member of the pension board does not have a conflict of interest and
 - from time to time, that none of the members of the pension board has a conflict of interest³³.

32
Section 5(5) of the 2013 Act defines a conflict of interest in relation to pension board members and s7(5) of that Act in relation to scheme advisory board members.

33
Section 5(4)(a), *ibid.*

63. Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above³⁴.
64. Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers³⁵.
65. In relation to the scheme advisory board, the regulations must also include provision requiring the responsible authority to be satisfied:
 - that a person to be appointed as a member of the scheme advisory board does not have a conflict of interest and
 - from time to time, that none of the members of the scheme advisory board has a conflict of interest³⁶.
66. Scheme regulations must require each member of a scheme advisory board to provide the responsible authority with such information as the responsible authority reasonably requires for the purposes of meeting the requirements referred to above³⁷.

Practical guidance

67. This guidance is to help scheme managers to meet the legal requirement to be satisfied that pension board members do not have any conflicts of interest. The same requirements apply to responsible authorities in relation to scheme advisory boards, (apart from the requirement regarding employer and member representatives), but the regulator does not have specific responsibility for oversight of scheme advisory boards.
68. Actual conflicts of interest are prohibited by the 2013 Act and cannot, therefore, be managed. Only potential conflicts of interest can be managed.
69. A conflict of interest may arise when pension board members:
 - must fulfil their statutory role³⁸ of assisting the scheme manager in securing compliance with the scheme regulations, other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator or with any other matter for which they are responsible, whilst
 - having a separate personal interest (financial or otherwise), the nature of which gives rise to a possible conflict with their statutory role.

34
Section 5(4)(b) of the
2013 Act.

35
Section 5(4)(c), *ibid.*

36
Section 7(4)(a), *ibid.*

37
Section 7(4)(b), *ibid.*

38
Section 5(2), *ibid.*

70. Some, if not all, of the 'Seven principles of public life' (formerly known as the 'Nolan principles')³⁹ will already apply to people carrying out roles in public service pension schemes, for example through the Ministerial code, Civil Service code or other codes of conduct. These principles should be applied to all pension board members in the exercise of their functions as they require the highest standards of conduct. Schemes should incorporate the principles into any codes of conduct (and across their policies and processes) and other internal standards for pension boards.
71. Other legal requirements relating to conflicts of interest may apply to pension board members and/or scheme advisory board members⁴⁰. The regulator may not have specific responsibility for enforcing all such legal requirements, but it does have a particular role in relation to pension board members and conflicts of interest. While pension board members may be subject to other legal requirements, when exercising functions as a member of a pension board they must meet the specific requirements of the 2013 Act and are expected to satisfy the standards of conduct and practice set out in this code.
72. It is likely that some pension board members will have dual interests, which may include other responsibilities. Scheme managers and pension board members will need to consider all other interests, financial or otherwise, when considering interests which may give rise to a potential or actual conflict. For example, a finance officer appointed as a pension board member can offer their knowledge and make substantial contributions to the operational effectiveness of the scheme, but from time to time they may be involved in a decision or matter which may be, or appear to be, in opposition to another interest. For instance, the pension board may be required to take or scrutinise a decision which involves the use of departmental resources to improve scheme administration, while the finance officer is at the same time tasked, by virtue of their employment, with reducing departmental spending. A finance officer might not be prevented from being a member of a pension board, but the scheme manager must be satisfied that their dual interests are not likely to prejudice the pension board member in the exercise of any particular function.

39
The Committee on Standards in Public Life has set out seven principles of public life which apply to anyone who works as a public office holder or in other sectors delivering public services:
www.gov.uk/government/publications/the-7-principles-of-public-life.

40
For example, local government legislation applicable to English local authorities contains legal requirements relating to certain people about standards of conduct, conflicts of interest and disclosure of certain interests.

73. Scheme regulations will set out matters for which the pension board is responsible⁴¹. Schemes⁴² should set out clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards in scheme documentation. This should cover, for example, whether they have responsibility for administering or monitoring the administration of the scheme; developing, delivering or overseeing compliance with requirements for governance and/or administration policies; and taking or scrutinising decisions relating to governance and/or administration. Regardless of their remit, potential conflicts of interest affecting pension board members need to be identified, monitored and managed effectively.
74. Schemes should consider potential conflicts of interest in relation to the full scope of roles, responsibilities and duties of pension board members. It is recommended that all those involved in the management or administration of public service pension schemes take professional legal advice when considering issues to do with conflicts of interest.

A three-stage approach to managing potential conflicts of interest

75. Conflicts of interest can inhibit open discussions and result in decisions, actions or inactions which could lead to ineffective governance and administration of the scheme. They may result in pension boards acting improperly, or lead to a perception that they have acted improperly. It is therefore essential that any interests, which have the potential to become conflicts of interest or be perceived as conflicts of interest, are identified and that potential conflicts of interest (including perceived conflicts) are monitored and managed effectively.
76. Schemes should ensure that there is an agreed and documented conflicts policy and procedure, which includes identifying, monitoring and managing potential conflicts of interest. They should keep this under regular review. Policies and procedures should include examples of scenarios giving rise to conflicts of interest, how a conflict might arise specifically in relation to a pension board member and the process that pension board members and scheme managers should follow to address a situation where board members are subject to a potential or actual conflict of interest.

41
Section 5(2) of the 2013 Act.

42
See paragraph 25 for the definition of 'schemes'.

77. Broadly, schemes should consider potential conflicts of interest in three stages:
- identifying
 - monitoring, and
 - managing.

Identifying potential conflicts

78. Schemes should cultivate a culture of openness and transparency. They should recognise the need for continual consideration of potential conflicts. Disclosure of interests which have the potential to become conflicts of interest should not be ignored. Pension board members should have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest. They should know how to manage potential conflicts.
79. Pension board members, and people who are proposed to be appointed to a pension board, must provide scheme managers with information that they reasonably require to be satisfied that pension board members and proposed members do not have a conflict of interest⁴³.
80. Schemes should ensure that pension board members are appointed under procedures that require them to disclose any interests, including other responsibilities, which could become conflicts of interest and which may adversely affect their suitability for the role, before they are appointed.
81. All terms of engagement, for example appointment letters, should include a clause requiring disclosure of all interests, including any other responsibilities, which have the potential to become conflicts of interest, as soon as they arise. All interests disclosed should be recorded. See the section of this code on 'Monitoring potential conflicts'.
82. Schemes should take time to consider what important matters or decisions are likely to be considered during, for example, the year ahead and identify and consider any potential or actual conflicts of interest that may arise in the future. Pension board members should be notified as soon as practically possible and mitigations should be put in place to prevent these conflicts from materialising.

43
Section 5(4)(b) of the
2013 Act and scheme
regulations.

Monitoring potential conflicts

83. As part of their risk assessment process, schemes should identify, evaluate and manage dual interests which have the potential to become conflicts of interest and pose a risk to the scheme and possibly members, if they are not mitigated. Schemes should evaluate the nature of any dual interests and assess the likely consequences were a conflict of interest to materialise.
84. A register of interests should provide a simple and effective means of recording and monitoring dual interests and responsibilities. Schemes should also capture decisions about how to manage potential conflicts of interest in their risk registers or elsewhere. The register of interests and other relevant documents should be circulated to the pension board for ongoing review and published, for example on a scheme's website.
85. Conflicts of interest should be included as an opening agenda item at board meetings and revisited during the meeting, where necessary. This provides an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising.

Managing potential conflicts

86. Schemes should establish and operate procedures which ensure that pension boards are not compromised by potentially conflicted members. They should consider and determine the roles and responsibilities of pension boards and individual board members carefully to ensure that conflicts of interest do not arise, nor are perceived to have arisen.
87. A perceived conflict of interest can be as damaging to the reputation of a scheme as an actual conflict of interest. It could result in scheme members and interested parties losing confidence in the way a scheme is governed and administered. Schemes should be open and transparent about the way they manage potential conflicts of interest.
88. When seeking to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the pension board, schemes should consider obtaining professional legal advice when assessing any option.

Examples of conflicts of interest

89. Below are some examples of potential or actual conflicts of interest which could arise, or be perceived to arise, in relation to public service pension schemes. These will depend on the precise role, responsibilities and duties of a pension board. The examples provided are for illustrative purposes only and are not exhaustive. They should not be relied upon as a substitute for the exercise of judgement based on the principles set out in this code and any legal advice considered appropriate, on a case-by-case basis.

a. Investing to improve scheme administration versus saving money

An employer representative, who may be a Permanent Secretary, finance officer or local councillor, is aware that system X would help to improve standards of record-keeping in the scheme, but it would be costly to implement. The scheme manager, for instance a central government department or local administering authority, would need to meet the costs of the new system at a time when there is internal and external pressure to keep costs down. In order to meet the costs of the new system, the scheme manager would need to find money, perhaps by using a budget that was intended for another purpose. This decision could prove unpopular with taxpayers. A conflict of interest could arise where the employer representative was likely to be prejudiced in the exercise of their functions by virtue of their dual interests.

b. Outsourcing an activity versus keeping an activity in-house

In an extension of the previous example, a member representative, who is also an employee of a participating employer, is aware that system X would help to improve standards of record-keeping in the scheme, but it would mean outsourcing an activity that is currently being undertaken in-house by their employer. The member representative could be conflicted if they were likely to be prejudiced in the exercise of their functions by virtue of their employment.

c. Representing the breadth of employers or membership versus representing narrow interests

An employer representative who happens to be employed by the administering authority and is appointed to the pension board to represent employers generally could be conflicted if they only serve to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if they only act in the interests of their union and union membership, rather than all scheme members.

d. Assisting the scheme manager versus furthering personal interests

- i. A pension board member, who is also a scheme adviser, may recommend the services or products of a related party, for which they might derive some form of benefit, resulting in them not providing, or not being seen to provide, independent advice or services
- ii. A pension board member who is involved in procuring or tendering for services for a scheme administrator, and who can influence the award of a contract, may be conflicted where they have an interest in a particular supplier, for example, a family member works there.

e) Sharing information with the pension board versus a duty of confidentiality to an employer

An employer representative has access to information by virtue of their employment, which could influence or inform the considerations or decisions of the pension board. They have to consider whether to share this information with the pension board in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the pension board.

Representation on pension boards

90. While scheme regulations must require pension boards to have an equal number of employer and member representatives⁴⁴, there is flexibility to design arrangements which best suit each scheme.
91. Arrangements should be designed with regard to the principles of proportionality, fairness and transparency, and with the aim of ensuring that a pension board has the right balance of skills, experience and representation (for example, of membership categories and categories of employers participating in the scheme). Those responsible for appointing members to a pension board should also consider the mix of skills and experience needed on the pension board in order for the board to operate effectively in light of its particular role, responsibilities and duties.

44
Section 5(4)(c) of the
2013 Act.

Publishing information about schemes

Legal requirements

92. The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up-to-date⁴⁵.
93. The information must include:
 - who the members of the pension board are
 - representation on the board of members of the scheme(s), and
 - the matters falling within the pension board's responsibility⁴⁶.

Practical guidance

Publication of pension board information

94. Scheme members will want to know that their scheme is being efficiently and effectively managed. Public service pension schemes should have a properly constituted, trained and competent pension board, which is responsible for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and requirements imposed by the regulator.
95. Scheme managers must publish the information required about the pension board and keep that information up-to-date⁴⁷. This will ensure that scheme members can easily access information about who the pension board members are, how pension scheme members are represented on the pension board and the responsibilities of the board as a whole.
96. When publishing information about the identity of pension board members, the representation of scheme members and matters for which the board is responsible, schemes⁴⁸ should also publish useful related information about the pension board such as:
 - the employment and job title (where relevant) and any other relevant position held by each board member
 - the pension board appointment process
 - who each pension board member represents
 - the full terms of reference for the pension board, including details of how it will operate, and
 - any specific roles and responsibilities of individual pension board members.

45
Section 6(1) of the 2013 Act.

46
Section 6(2), *ibid.*

47
Section 6(1), *ibid.*

48
See paragraph 25 for the definition of 'schemes'.

97. Schemes should also consider publishing information about pension board business, for example board papers, agendas and minutes of meetings (redacted to the extent that they contain confidential information and/or data covered by the Data Protection Act 1998). They should consider any requests for additional information to be published, to encourage scheme member engagement and promote a culture of transparency.
98. Scheme managers must ensure that information published about the pension board is kept up-to-date⁴⁹. Schemes should have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete.

Other legal requirements

99. Scheme managers (or any other person specified in legislation) must comply with any other legal requirements relating to the publication of information about governance and administration. In particular, HM Treasury directions may require the scheme manager or responsible authority of a public service pension scheme to publish scheme information, including information about scheme administration and governance and may specify how and when information is to be published⁵⁰.

⁴⁹
Section 6(1) of the 2013 Act.

⁵⁰
Section 15, *ibid.*

Managing risks

100. This part of the code covers the requirement for scheme managers to establish and operate adequate internal controls.

Internal controls

Legal requirements

101. The scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

102. For these purposes 'internal controls' means:

- arrangements and procedures to be followed in the administration and management of the scheme
- systems and arrangements for monitoring that administration and management, and
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme⁵¹.

Practical guidance

103. Internal controls are systems, arrangements and procedures that are put in place to ensure that pension schemes are being run in accordance with the scheme rules (which for most public service pension schemes are set out in the scheme regulations) and other law. They should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.

104. Good internal controls are an important characteristic of a well-run scheme and one of the main components of the scheme manager's role in securing the effective governance and administration of the scheme. Internal controls can help protect pension schemes from adverse risks, which could be detrimental to the scheme and members if they are not mitigated.

105. Scheme managers must establish and operate internal controls⁵². These should address significant risks which are likely to have a material impact on the scheme. Scheme managers should employ a risk-based approach and ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls. They should seek advice, as necessary.

⁵¹ Section 249A(5) and s249B of the Pensions Act 2004.

⁵² Section 249B, *ibid.*

Identifying risks

106. Before implementing an internal controls framework, schemes⁵³ should carry out a risk assessment. They should begin by:
- setting the objectives of the scheme
 - determining the various functions and activities carried out in the running of the scheme, and
 - identifying the main risks associated with those objectives, functions and activities.
107. An effective risk assessment process will help schemes to identify a wide range of internal and external risks, which are critical to the scheme and members. When identifying risks, schemes should refer to relevant sources of information, such as records of internal disputes and legislative breaches, the register of interests, internal and external audit reports and service contracts.
108. Once schemes have identified risks, they should record them in a risk register and review them regularly. Schemes should keep appropriate records to help scheme managers demonstrate steps they have taken to comply, if necessary, with legal requirements.

Evaluating risks and establishing adequate internal controls

109. Not all risks will have the same potential impact on scheme operations and members or the same likelihood of materialising. Schemes should consider both these areas when determining the order of priority for managing risks and focus on those areas where the impact and likelihood of a risk materialising is high.
110. Many pension schemes will already have adequate internal controls in place, some of which may apply to a variety of the functions of the administering authority. Schemes should review their existing arrangements and procedures to determine whether they can prevent and detect errors in scheme operations and help mitigate pension scheme-related risks. For example, schemes could obtain assurance about their existing controls through direct testing or by obtaining reports on controls. Any such review should be appropriate to the outcome of the risk evaluation.
111. Schemes should consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. For example, the scheme manager(s) for a funded scheme should establish and operate internal controls that regularly assess the effectiveness of investment-related decision making. Scheme managers for all pension schemes should establish and operate internal controls that regularly assess the effectiveness of data management and record-keeping.

53
See paragraph 25 for the definition of 'schemes'.

Managing risks by operating internal controls

112. Schemes should consider a number of issues when designing internal controls to manage risks. The examples provided are for illustrative purposes only and are not exhaustive. They should not be relied upon as a substitute for the exercise of judgement, based on the principles set out in this code and any advice considered appropriate, particularly in light of any problems experienced in the past.

a. How the control is to be implemented and the skills of the person performing the control

For example, schemes should ensure that new employers participating in the scheme understand what member data are required and the process for supplying it. Where employers fail to supply the correct data or do not follow the correct process, schemes should ensure that the employer identifies the cause of the error and that appropriate action is taken to avoid recurrence, for example remedying a systemic error or providing the relevant training.

b. The level of reliance that can be placed on information technology solutions where processes are automated

For example, where scheme administration processes use an automated system, internal or external auditors could audit the system on an annual basis to assess whether it is capable of performing a required function and report any issues that are identified.

c. Whether a control is capable of preventing future recurrence or merely detecting an event that has already happened

For example, schemes should ensure that their systems support the maintenance and retention of good member records. This includes implementing procedures and controls which identify where systems are not fit for purpose, there are gaps in the data, the data are of a poor quality and/or there has been a loss of data.

d. The frequency and timeliness of a control process

For example, schemes should ensure that data are complete. They should undertake a data-cleansing or member-tracing exercise and review this on a regular basis (at least annually or at regular intervals that they consider appropriate for the scheme).

e. How the control will ensure that data are managed securely

For example, schemes should ensure that all staff, including temporary or contract staff, complete information management training before they are given access to sensitive data.

f. The process for flagging errors or control failures, and approval and authorisation controls

For example, schemes should ensure that member communications such as member information booklets are reviewed regularly, particularly where there are changes to the scheme. All relevant parties should be aware of how they should flag errors and the authorisation required before any changes are made to the communications.

Monitoring controls effectively

113. Risk assessment is a continual process and should take account of a changing environment and new and emerging risks, including significant changes in or affecting the scheme and employers who participate in the scheme.
114. For example, where relevant, schemes should put in place systems and processes for making an objective assessment of the strength of an employer's covenant (which should include analysis of their financial position, prospects and ability to pay the necessary employer contributions).
115. An effective risk assessment process will provide a mechanism to detect weaknesses at an early stage. Schemes should periodically review the adequacy of internal controls in:
 - mitigating risks
 - supporting longer-term strategic aims, for example relating to investments
 - identifying success (or otherwise) in achieving agreed objectives, and
 - providing a framework against which compliance with the scheme regulations and legislation can be monitored.
116. Internal or external audits and/or quality assurance processes should ensure that adequate internal controls are in place and being operated effectively. Reviews should take place when substantial changes take place, such as changes to pension scheme personnel, implementation of new administration systems or processes, or where a control has been found to be inadequate.
117. A persistent failure to put in place adequate internal controls may be a contributory cause of an administrative breach. Where the effect and wider implications of not having in place adequate internal controls are likely to be 'materially significant', the regulator would expect to receive a whistleblowing report that outlines relevant information relating to the breach. For more information, see the 'Reporting breaches of the law' section of this code.

118. Ultimately, the legal responsibility for establishing and operating adequate internal controls rests with the scheme manager⁵⁴. Scheme regulations or other documents may delegate responsibilities to pension board members or others – for example identifying, evaluating and managing risks, developing and maintaining appropriate controls and providing assurance to the scheme manager about any controls in place. However, accountability for those controls and the governance of policies, procedures and processes will reside with the scheme manager.

Outsourcing services

119. The legal requirements relating to internal controls apply equally where schemes outsource services connected with the running of the scheme. Providers should be required to demonstrate that they will have adequate internal controls in their tenders for delivering services. The requirements should be incorporated in the terms of engagement and contract between the scheme and service provider. Outsourced services may include, for example, the maintenance of records and data, calculation of benefits and investment management services. Where services are outsourced, scheme managers should be satisfied that internal controls associated with those services are adequate and effective.

120. An increasing number of service providers are obtaining independent assurance reports to help demonstrate their ability to deliver quality administration services. Schemes should ask their service providers to demonstrate that they have adequate internal controls relating to the services they provide. It is vital that schemes ensure they receive sufficient assurance from service providers. For example, the information from providers should be sufficiently detailed and comprehensive and the service level agreements should cover all services that are outsourced. Schemes should also consider including provisions in contracts for outsourced services requiring compliance with appropriate standards. This should help to ensure effective administration.

54
Section 249B of the
Pensions Act 2004.

Administration

121. This part of the code covers:

- scheme record-keeping
- maintaining contributions, and
- providing information to members.

Scheme record-keeping

Legal requirements

122. Scheme managers must keep records of information relating to:

- member information⁵⁵
- transactions⁵⁶, and
- pension board meetings and decisions⁵⁷.

123. The legal requirements are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 ('the Record Keeping Regulations').

Practical guidance

124. Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes⁵⁸ to carry out basic functions. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and ultimately paying members incorrect benefits. For funded schemes, it may lead to schemes managing investment risks ineffectively. There is also the potential for the maladministration of members' contributions and failure to identify any misappropriation of assets. Schemes should be able to demonstrate to the regulator, where required, that they keep accurate, up-to-date and enduring records to be able to govern and administer their pension scheme efficiently.

125. Scheme managers must establish and operate adequate internal controls⁵⁹, which should include processes and systems to support record-keeping requirements and ensure that they are effective at all times.

55
Regulation 4 of the Record Keeping Regulations.

56
Regulation 5, *ibid.*

57
Regulation 6, *ibid.*

58
See paragraph 25 for the definition of 'schemes'.

59
Section 249B of the Pensions Act 2004.

Records of member information

126. Scheme managers must ensure that member data across all membership categories specified in the Record Keeping Regulations is complete and accurate⁶⁰. Member data should be subject to regular data evaluation.
127. Scheme managers must keep specific member data⁶¹, which will enable them to uniquely identify a scheme member and calculate benefits correctly. This is particularly important with the establishment of career average revalued earnings (CARE) schemes. Scheme managers must be able to provide members with accurate information regarding their pension benefits (accrued benefits to date and their future projected entitlements) in accordance with legislative requirements⁶², as well as pay the right benefits to the right person (including all beneficiaries) at the right time.
128. Schemes should require participating employers to provide them with timely and accurate data in order for the scheme manager to be able to fulfil their legal obligations. Schemes should seek to ensure that processes are established by employers which enable the transmission of complete and accurate data from the outset. Processes will vary from employer to employer, depending on factors such as employee turnover, pay periods, number of employees who are members and the timing and number of payroll processing systems.
129. Schemes should seek to ensure that employers understand the main events which require information about members to be passed from the employer to the scheme and/or another employer, such as when an employee:
- joins or leaves the scheme
 - changes their rate of contributions
 - changes their name, address or salary
 - changes their member status, and
 - transfers employment between scheme employers.
130. Schemes should ensure that appropriate procedures and timescales are in place for scheme employers to provide updated information when member data changes, for checking scheme data against employer data and for receiving information which may affect the profile of the scheme. If an employer fails to act according to the procedures set out above, meaning that they and/or scheme managers may not be complying with legal requirements, those under a statutory duty to report breaches of the law to the regulator under section 70 of the Pensions Act 2004 should assess whether there has been a relevant breach and take action as necessary.

⁶⁰
Section 16 and s30 of the 2013 Act. Regulation 4 of the Record Keeping Regulations specifies member records which must be kept. The Data Protection Act 1998 requires personal data to be accurate and up-to-date.

⁶¹
Regulation 4 of the Record Keeping Regulations.

⁶²
Legislative requirements include s14 of the 2013 Act, HM Treasury directions made under that section, and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.

Records of transactions

131. Schemes should be able to trace the flow of funds into and out of the scheme and reconcile these against expected contributions and scheme costs. In doing so, they will have clear oversight of the core scheme transactions and should be able to mitigate risks swiftly.
132. Scheme managers must keep records of transactions made to and from the scheme and any amount due to the scheme which has been written off⁶³. They should be able to demonstrate that they do so.

Records of pension board meetings and decisions

133. Scheme managers must keep records of pension board meetings including any decisions made⁶⁴. Schemes should also keep records of key discussions, which may include topics such as compliance with policies relating to administration of the scheme.
134. Scheme managers must also keep records relating to any decision taken by members of the pension board other than at a pension board meeting, or taken by a committee/sub-committee, which has not been ratified by the pension board. The records must include the date, time and place of the decision and the names of board members participating in that decision⁶⁵. This will ensure that there is a clear and transparent audit trail of the decisions made in relation to the scheme.

Retention of scheme records

135. Schemes should retain records for as long as they are needed. It is likely that data will need to be held for long periods of time and schemes will need to retain some records for a member even after that individual has retired, ensuring that pension benefits can be properly administered over the lifetime of the member and their beneficiaries. Schemes should have in place adequate systems and processes to enable the retention of records for the necessary time periods.

Ongoing monitoring of data

136. Schemes should have policies and processes that monitor data on an ongoing basis to ensure it is accurate and complete, regardless of the volume of scheme transactions. This should be in relation to all membership categories, including pensioner member data where queries may arise once the pension is being paid.
137. Schemes should adopt a proportionate and risk-based approach to monitoring, based on any known or historical issues that may have occurred in relation to the scheme's administration. This is particularly important for the effective administration of CARE pension schemes, which requires schemes to hold significantly more data than needed for final salary schemes.

63
Regulation 5 of the
Record Keeping
Regulations.

64
Regulation 6, *ibid.*

65
Ibid.

Data review exercise

138. Schemes should continually review their data and carry out a data review exercise at least annually. This should include an assessment of the accuracy and completeness of the member information data held. Schemes should decide the frequency and nature of the review in light of factors such as the level of data quality, any issues identified and key scheme events.
139. Where the management of scheme data has been outsourced, it is vital that schemes understand and are satisfied that the controls in place will ensure the integrity of scheme member data. They should ensure that the administrator has assessed the risks that poor or deficient member records may present to the scheme and has taken the necessary steps to mitigate them, where applicable.
140. Where there has been a change of administrator or the administration system/platform, schemes should review and cleanse data records and satisfy themselves that all data are complete and accurate.

Data improvement plan

141. Where schemes identify poor quality or missing data, they should put a data improvement plan in place to address these issues. The plan should have specific data improvement measures which schemes can monitor and a defined end date within a reasonable timeframe when the scheme will have complete and accurate data.

Reconciliation of member records

142. Schemes should ensure that member records are reconciled with information held by the employer, for example postal address or electronic address (email address) changes and new starters. Schemes should also ensure that the numbers of scheme members is as expected based on the number of leavers and joiners since the last reconciliation. Schemes should be able to determine those members who are approaching retirement, those who are active members and those who are deferred members.

Data protection and internal controls

143. Schemes must ensure that processes that are created to manage scheme member data meet the requirements of the Data Protection Act 1998 and the data protection principles.

144. Schemes should understand:

- their obligations as data controllers and who the data processors are in relation to the scheme
- the difference between personal data and sensitive personal data (as defined in the Data Protection Act 1998)
- how data are held and how they should respond to data requests from different parties
- the systems which need to be in place to store, move and destroy data, and
- how data protection affects member communications.

Other legal requirements

145. In addition to the requirements set out in the Record Keeping Regulations, there are various other legal requirements that relate to record-keeping in public service pension schemes. Those requirements apply variously to managers, administrators and employers. Not all requirements apply to all public service pension schemes, but some of the key requirements are set out under the following legislation:

- Pensions Act 1995 and 2004
- Pensions Act 2008 and the Employers' Duties (Registration and Compliance) Regulations 2010⁶⁶
- Occupational Pension Schemes (Scheme Administration) Regulations 1996
- Registered Pension Schemes (Provision of Information) Regulations 2006
- Data Protection Act 1998, and
- Freedom of Information Act 2000.

146. Where applicable, schemes should be able to demonstrate that they keep records in accordance with these and any other relevant legal requirements. Schemes should read the relevant legislation and any guidance in conjunction with this code where applicable.

⁶⁶ See the regulator's guidance about automatic enrolment for more information about record-keeping requirements under this legislation.

Maintaining contributions

Legal requirements

147. Employer contributions must be paid to the scheme in accordance with any requirements in the scheme regulations. Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable⁶⁷.
148. Where employee contributions are deducted from a member's pay, the amount deducted must be paid to the managers of the scheme at the latest by the 19th day of the month following the deduction, or by the 22nd day if paid electronically (the 'prescribed period')⁶⁸, or earlier if required by scheme regulations. References to 'days' means all days. References to 'working days' do not include Saturdays, Sundays or Bank Holidays.
149. Where employee contributions are not paid within the prescribed period, if the scheme manager⁶⁹ has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period⁷⁰. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law. For more information about reporting breaches of the law, see this section of the code.

67
Section 70A of the Pensions Act 2004.

68
Section 49(8) of the Pensions Act 1995 and regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

69
The legal requirement to report late payments of employee contributions is imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

70
Section 49(9) of the Pensions Act 1995.

71
See paragraph 25 for the definition of 'schemes'.

Practical guidance

150. As part of the requirement to establish and operate adequate internal controls, scheme managers should ensure that there are effective procedures and processes in place to identify payment failures that are – and are not – of material significance to the regulator. A 'payment failure' is where contribution payments are not paid to the scheme by the due date(s), or within the prescribed period and a 'materially significant payment failure' refers to a payment failure which is likely to be of material significance to the regulator in the exercise of its functions.
151. Schemes⁷¹ should monitor pension contributions, resolve payment issues and report payment failures, as appropriate, so that the scheme is administered and managed in accordance with the scheme regulations and other legal requirements.

152. Adequate procedures and processes are likely to involve:

- developing a record to monitor the payment of contributions
- monitoring the payment of contributions
- managing overdue contributions, and
- reporting materially significant payment failures.

153. These procedures and processes should help scheme managers to meet their statutory duty to report materially significant payment failures to the regulator, as well as ensuring the effective management of scheme contributions and payment of the right pension.

Developing a record for monitoring the payment of contributions

154. There are legislative requirements for managers of DB schemes to keep a schedule of contributions; and for DC schemes, a payment schedule, which allows managers to monitor contributions to their scheme. There are various exemptions from these requirements including for DB and DC schemes which are established by or under an enactment and which are guaranteed by a Minister of the Crown or other public authority, and for DB schemes which are pay-as-you-go schemes⁷².

155. Public service pension schemes which meet these exemptions should nonetheless develop a record for monitoring the payment of contributions to the scheme (a contributions monitoring record, which must reflect any requirements in scheme regulations where relevant). Schemes should prepare the contributions monitoring record in consultation with employers.

156. A contributions monitoring record will enable schemes to check whether contributions have been paid on time and in full, and, if they have not, provide a trigger for escalation for schemes to investigate the payment failure and consideration of whether scheme managers need to report to the regulator and, where relevant, members.

157. A contributions monitoring record should include the following information:

- contribution rates
- the date(s) on or before which employer contributions are to be paid to the scheme
- the date by when, or period within which, the employee contributions are to be paid to the scheme
- the rate or amount of interest payable where the payment of contributions is late.

72

Exemptions from the requirement to secure a schedule of contributions in respect of DB schemes under s227 of the Pensions Act 2004 are in regulation 17 of the Occupational Pension Schemes (Scheme Funding) Regulations 2005. Exemptions from the requirement to secure a payment schedule in respect of DC schemes under s87 of the Pensions Act 1995 is in regulation 17 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

158. The date when employer contributions must be paid is the date on or before which they are due under the scheme in accordance with the scheme regulations (or other scheme documentation). Schemes should assess the timing of payments against the date specified.
159. While there is a legal requirement for employee contributions to be paid to the scheme by the 19th day of the month following deduction, or by the 22nd day if paid electronically, this does not override any earlier time periods required by the scheme regulations. There are special rules for the first deduction of contributions on automatic enrolment under the Pensions Act 2008⁷³.
160. A contributions monitoring record should help schemes to identify any employers who are not paying contributions on time and/or in full, support schemes to ensure that contributions are paid and employers to develop and implement new processes, as appropriate. The contributions monitoring record should provide schemes with information to maintain records of money received and will be useful for schemes to ensure that their member records are kept up-to-date.

Monitoring the payment of contributions

161. Schemes should monitor contributions on an ongoing basis for all the membership categories within the scheme. Schemes should regularly check payments due against the contributions monitoring record.
162. Schemes should apply a risk-based and proportionate approach to help identify employers and situations which present a higher risk of payment failures occurring and which are likely to be of material significance and require the scheme manager to intervene.
163. Schemes should be aware of what is to be paid in accordance with the contributions monitoring record or other scheme documentation, which may be used by the pension scheme. Schemes should also have a process in place to identify where payments are late or have been underpaid, overpaid or not paid at all.
164. For schemes to effectively monitor contributions they will require access to certain information. Employers will often provide the payment information that schemes need to monitor contributions at the same time as they send the contributions to the scheme, which may be required under the scheme regulations. Payment information may include:
 - the employer and employee contributions due to be paid, which should be specified in the scheme regulations and/or other scheme documentation
 - the pensionable pay that contributions are based upon (where required), and
 - due date(s) on or before which payment of contributions and other amounts are to be made.

73
Regulation 16 of the
Occupational Pension
Schemes (Scheme
Administration)
Regulations 1996.

165. Schemes should have adequate internal controls in place to monitor the sharing of payment information between the employer, pension scheme and member. Where the necessary payment information is not automatically available or provided by employers, schemes should request the additional information they need. Schemes may not need to obtain payment information as a matter of course, only where it is required for effective monitoring.
166. Scheme managers must record and retain information on transactions, including any employer and employee contributions received and payments of pensions and benefits⁷⁴, which will support them in their administration and monitoring responsibilities.
167. Where the administration of scheme contributions is outsourced to a service provider, schemes should ensure that there is a process in place to obtain regular information on the payment of contributions to the scheme and a clear procedure in place to enable them to identify and resolve payment failures which may occur.

Managing overdue contributions

168. When schemes identify or are notified of a problem, they should assess whether a payment failure has occurred before taking steps to resolve and, if necessary, report it. During their assessment, schemes should take into account:
- legitimate agreed payments made directly by an employer for scheme purposes, ie where the scheme has agreed that a contributions payment can be made late due to exceptional circumstances
 - legitimate agreed payment arrangements made between an employee and employer, ie where the employer has agreed that a contribution payment can be made late due to exceptional circumstances
 - contributions paid directly to a pension provider, scheme administrator or investment manager
 - any AVCs included with an employer's overall payment.
169. Where schemes identify a payment failure, they should follow a process to resolve issues quickly. This should normally involve the following steps:
- a. Investigate any apparent employer failure to pay contributions in accordance with the contributions monitoring record or legal requirements.
 - b. Contact the employer promptly to alert them to the payment failure and to seek to resolve the overdue payment.

74
Regulation 5 of the
Record Keeping
Regulations.

- c. Discuss it further with the employer as soon as practicable to find out the cause and circumstances of the payment failure.
 - d. Ask the employer to resolve the payment failure and take steps to avoid a recurrence in the future.
170. Schemes should maintain a record of their investigation and communications between themselves and the employer. Recording this information will help to provide evidence of schemes' effective monitoring processes and could help to demonstrate that the scheme manager has met the legal requirement to establish and operate adequate internal controls. It will also form part of the decision of whether or not to report a payment failure to the regulator and, where relevant, members.
171. The regulator recognises that a monitoring process based on information provided by employers may not be able to confirm deliberate underpayment or non-payment, or fraudulent behaviour by an employer. Schemes should review current processes or develop a new process which is able to detect situations where fraud may be more likely to occur and where additional checks may be appropriate.
172. Ultimately, schemes have flexibility to design their own procedures so that they can obtain overdue payments and rectify administrative errors in the most effective and efficient way for their particular scheme.

Reporting payment failures which are likely to be of material significance to the regulator

173. Scheme managers must report payment failures which are likely to be of material significance to the regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions⁷⁵.
174. Where schemes identify a payment failure, they should attempt to recover contributions within 90 days from the due date or prescribed period having passed without full payment of the contribution.
175. While schemes are not expected to undertake a full investigation to establish materiality or investigate whether an employer has behaved fraudulently, schemes should ask the employer:
- the cause and circumstances of the payment failure
 - what action the employer has taken as a result of the payment failure, and
 - the wider implications or impact of the payment failure.

75
Section 49(9)(b) of the Pensions Act 1995 and s70A of the Pensions Act 2004.

176. When reaching a decision about whether to report, schemes should consider these points together and establish whether they have reasonable cause to report.
177. Having reasonable cause means more than merely having a suspicion that cannot be substantiated. Schemes should investigate the payment failure and use their judgement when deciding whether to report to the regulator.
178. Schemes may choose to take an employer's response to their enquiries at face value if they have no reason to believe it to be untrue or where their risk-based process indicates that there is a low risk of continuing payment failure. Where they receive no response, schemes may infer that an employer is unwilling to pay the contributions due.
179. Examples of payment failures that are likely to be of material significance to the regulator include:
- where schemes have reasonable cause to believe that the employer is neither willing nor able to pay contributions, for example in the event of a business failure or where an employer becomes insolvent and is unable to make pension payments
 - where there is a payment failure involving possible dishonesty or a misuse of assets or contributions, for example where schemes have concerns that an employer is retaining and using contributions to manage cash flow difficulties or where schemes have become aware that the employer has transferred contributions elsewhere other than to the pension scheme, which may be misappropriation
 - where the information available to schemes may indicate that the employer is knowingly concerned with fraudulently evading their obligation to pay employee contributions
 - where schemes become aware that the employer does not have adequate procedures or systems in place to ensure the correct and timely payment of contributions due and the employer does not appear to be taking adequate steps to remedy the situation, for example where there are repetitive and regular payment failures, or
 - any event where contributions have been outstanding for 90 days from the due date, unless the payment failure was a one-off or infrequent administrative error that had already been corrected on discovery or is thereafter corrected as soon as possible.

180. Examples of payment failures which are not likely to be of material significance to the regulator include:
- where a payment arrangement is being met by an employer for the recovery of outstanding contributions, or
 - where there are infrequent one-off payment failures or administrative errors such as where employees leave or join the scheme and those occasional failures or errors have been corrected within 90 days of the due date.
181. Schemes should identify and report to the regulator, as appropriate, any payment failures that may not be of material significance taken individually, but which could indicate a systemic problem. For example, an employer consistently failing to pay contributions by the due date or within the prescribed period, but paying within 90 days, may be due to inefficient scheme systems and processes. Schemes may also need to report payment failures that occur repeatedly and are likely to be materially significant to the regulator, depending on the circumstances.
182. Reporting payment failures of employer contributions as soon as ‘reasonably practicable’ means within a reasonable period from the scheme manager having reasonable cause to believe that the payment failure is likely to be of material significance to the regulator. Schemes should also consider whether it may be appropriate to report a payment failure of employer contributions to scheme members.
183. A reasonable period for reporting would be within ten working days from having reasonable cause to believe that the payment failure is likely to be of material significance. This will depend upon the seriousness of the payment failure and impact on the scheme. A written report should be preceded by a telephone call, if appropriate.
184. In the case of an employer failing to pay employee contributions to the pension scheme, if the scheme manager has reasonable cause to believe that the payment failure is likely to be of material significance to the regulator, the failure must be reported to the regulator⁷⁶ and members within a reasonable period after the end of the prescribed period⁷⁷. A reasonable period for reporting to the regulator would be within ten working days and to members within 30 days of having reported to the regulator.
185. Reports relating to payment failures of employer contributions must be made in writing (preferably using our Exchange online service)⁷⁸. In exceptional circumstances the scheme manager could make a telephone report.

76
Reporting to the regulator does not affect any responsibility to report to another person or organisation.

77
S49(8) and (9) of the Pensions Act 1995 and regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under s70 of the Pensions Act 2004 to assess and if necessary report breaches of the law.

78
Section 70A of the Pensions Act 2004.

186. The regulator has standardised reporting procedures and expectations regarding content, format and channel. For more information, see the section of this code on 'Reporting breaches of the law'.

Providing information to members

Legal requirements

187. The law requires schemes⁷⁹ to disclose information about benefits and scheme administration to scheme members and others. This section summarises the legal requirements relating to benefit statements and certain other information which must be provided and should be read alongside the requirements in the 2013 Act, HM Treasury directions⁸⁰ and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ('the Disclosure Regulations 2013'). In addition to these duties, there are other legal requirements relating to the provision of information to members and others under other legislation. See paragraph 211 for further details.

79
See paragraph 25 for the definition of 'schemes'.

80
Section 14 of the 2013 Act.

81
Section 14(1) and s30(1) of the 2013 Act.

Benefit statements

For active members of DB schemes under the 2013 Act

188. Scheme regulations must require scheme managers to provide an annual benefit information statement to each active member of a DB scheme established under the 2013 Act or new public body scheme⁸¹. The statement must include a description of the benefits earned by a member in respect of their pensionable service⁸².

82
Section 14(2)(a), *ibid.*

83
Section 14(4) and (5), *ibid.*

84
Section 14(2)(b) and (6), *ibid.*

189. The first statement must be provided no later than 17 months after the scheme regulations establishing the scheme come into force. Subsequent statements must be provided at least annually after that date⁸³.

85
The Occupational Pension Schemes (Managers) Regulations 1986 specify who is to be treated as the 'manager' (in certain occupational public service pension schemes) for the purpose of providing information under specified legislation, including the Disclosure Regulations 2013, which may differ from the person who is the 'scheme manager'.

190. Statements must also comply with HM Treasury directions in terms of any other information which must be included and the manner in which they must be provided to members⁸⁴.

For active, deferred or pension credit members of any DB public service pension scheme under the Disclosure Regulations 2013

191. Managers⁸⁵ of a scheme must also provide a benefit statement following a request by an active, deferred or pension credit member of a DB scheme if the information has not been provided to that member in the previous 12 months before that request⁸⁶.

86
Regulation 16 of the Disclosure Regulations 2013.

192. These benefit statements must include information about the amount of benefits by reference to a particular date and how they are calculated⁸⁷. The full details depend on the type of member making the request.

193. The information must be given as soon as practicable but no more than two months after the date the request is made⁸⁸.

For members of a DC public service pension scheme under the Disclosure Regulations 2013

194. Managers of a scheme must provide a benefit statement to a member of a DC public service pension scheme, who is not an 'excluded person', within 12 months of the end of the scheme year⁸⁹. An 'excluded person' is a member or beneficiary whose present postal address and email address is not known to the scheme because the correspondence has been returned (in the case of postal correspondence) or has not been delivered (in the case of electronic correspondence)⁹⁰.

195. The information which must be provided includes the amount of contributions (before any deductions are made) credited to the member during the immediately preceding scheme year⁹¹, the value of the member's accrued rights under the scheme at a date specified by the managers of the scheme⁹² and a statutory money purchase illustration⁹³. The full detail of the information that must be provided is set out in the Disclosure Regulations 2013.

87
Regulation 16 and Schedule 5 of the Disclosure Regulations 2013.

88
Regulation 16(3), *ibid.*

89
Regulation 17, *ibid.*

90
Regulation 2, *ibid.*

91
'Scheme year' is defined in Regulation 2, *ibid.*

92
Regulation 17 and Schedule 6, *ibid.*

93
Paragraph 6 and Schedule 6, *ibid.* There are certain exceptions to the requirements to provide this information.

94
Regulation 4, *ibid.*

Other information about scheme administration

196. Under the Disclosure Regulations 2013, managers of a scheme must provide other information to members and others in certain circumstances (for example, on request). The Regulations set out the information which must be given, the timescales for providing such information and the methods that may be used. Not all information must be provided in respect of all public service pension schemes (there are some exemptions for specified public service schemes or according to the type of benefit offered), but information which scheme managers may need to provide includes:

- basic scheme information
- information about the scheme that has materially altered
- information about the constitution of the scheme
- annual report (this requirement will generally not apply to unfunded DB public service pension schemes and DB schemes for local government workers⁹⁴)

- information about funding principles, actuarial valuations and payment schedules (these requirements will generally not apply to unfunded DB public service pension schemes and DB schemes for local government workers⁹⁵)
- information about transfer credits
- information about lifestyling (this requirement will not apply in respect of DB benefits in public service pension schemes⁹⁶)
- information about accessing benefits, and
- information about benefits in payment.

197. The detail of the information that must be provided to scheme members and others and any exemptions are set out in the Disclosure Regulations 2013. Managers must provide the required information, along with confirmation that members may request further information and the postal and email addresses to which a person should send those requests and enquiries⁹⁷.

Who is entitled to information

198. Managers of a scheme must ensure that scheme members and others are given information in accordance with the Disclosure Regulations 2013, unless they are an 'excluded person' (as defined above).

199. The Disclosure Regulations 2013 make provision for scheme members and others to receive information that is relevant to their pension rights and entitlements under the scheme. The categories of people who are entitled to receive information vary according to the different types of information, and there are exemptions where information has already been provided in a specified period. The detail of who is entitled to any particular type of information is set out in the Disclosure Regulations 2013 but may include any of the following ('a relevant person'):

- active members
- deferred members
- pensioner members
- prospective members
- spouses or civil partners of members or prospective members
- other beneficiaries, and
- recognised trade unions.

95
Regulation 4 of the
Disclosure Regulations
2013.

96
Regulation 18(1), *ibid.*

97
Regulation 4(7), *ibid.*

When basic scheme information must be provided

200. Managers must disclose certain basic information about the scheme and the benefits it provides to a prospective member (if practicable to do so) or a new member⁹⁸. Where the manager has received jobholder information⁹⁹ for the member or prospective member they must provide the information within a month of the jobholder information being received¹⁰⁰. Where they have not received jobholder information, they must provide the information within two months of the date the person became an active member of the scheme¹⁰¹.

201. Managers must also provide the information on request to a relevant person within two months of the request being made, except where the same information was provided to the same person or trade union in the 12 months before the request¹⁰².

What information must be disclosed on request

202. In addition to the basic scheme information, pension scheme members and other relevant persons are entitled to request certain scheme information or scheme documents including:

- information about the constitution of the pension scheme, and
- information about transfer credits¹⁰³.

98
Regulation 6 of the Disclosure Regulations 2013.

How benefit statements and other information must be provided

203. Generally, schemes may choose how they provide information to scheme members, including by post, electronically (by email or by making it available on a website) or by any other means permitted by the law. For benefit statements issued under the 2013 Act, HM Treasury directions may specify how the information must be provided. Where schemes wish to provide information required under the Disclosure Regulations 2013 by electronic means there are important steps and safeguards that must first be met¹⁰⁴. These include:

99
Specified in regulation 3 of the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010.

100
Regulation 6(5) of the Disclosure Regulations 2013.

101
Regulation 6(6), *ibid.*

102
Regulation 6(4) and (7), *ibid.*

103
Regulations 11, 14 and Parts 1 and 4 of Schedule 3, *ibid.*

104
Regulation 26, *ibid.*

- scheme members and beneficiaries being provided with the option to opt out of receiving information electronically by giving written notice to the scheme
- managers being satisfied that the electronic communications have been designed:
 - so that the person will be able to access and either store or print the relevant information and
 - taking into account the requirements of disabled people

- ensuring that members and beneficiaries who were members or beneficiaries of the public service pension scheme on 1 December 2010 (where the scheme had not provided information electronically prior to that date) has been sent a written notice (other than via email or website), informing them that:
 - it is proposed to provide information electronically in the future and
 - scheme members and beneficiaries may opt out of receiving information electronically by sending written notice.

204. Where schemes make information or a document available on a website for the first time, they must give notice (other than via a website) to the recipient¹⁰⁵. They must ensure that the notice includes:

- a statement advising that the information is available on the website
- the website address
- details of where on the website the information or document can be read, and
- an explanation of how the information or document may be read on the website¹⁰⁶.

205. When any subsequent information is made available on a website, managers of a scheme must give a notice (other than via a website) to recipients informing them that the information is available on the website¹⁰⁷. This notice will not be required where¹⁰⁸:

- at least two documents have been given to the recipient by hand or sent to the recipient's last known postal address
- each of those letters asks the recipient to give their electronic (email) address to the scheme and informs the recipient of their right to request (in writing) that information or documents are not to be provided electronically
- a third letter has been given to the recipient by hand or sent to the recipient's last known postal address and includes a statement that further information will be available to read on the website and that no further notifications will be sent to the recipient and
- the managers of the scheme do not know the recipient's email address and have not received a written request that information or documents are not to be provided to the recipient electronically.

105
Regulation 27(1) and (5) of the Disclosure Regulations 2013.

106
Regulation 27(2), *ibid.*

107
Regulation 27(3) and (5), *ibid.*

108
Regulation 28, *ibid.*

206. In some cases, the Disclosure Regulations 2013 specify that information must be made available by one of the following methods¹⁰⁹:

- available to view free of charge, at a place that is reasonable having regard to the request
- published on a website (in which case the procedure to be followed before making information available on a website does not apply, except that the person or trade union must be notified of certain details)
- given for a charge that does not exceed the expense incurred in preparing, posting and packing the information, or
- publicly available elsewhere.

Practical guidance

207. Schemes should design and deliver communications to scheme members in a way that ensures they are able to engage with their pension provision. Information should be clear and simple to understand as well as being accurate and easily accessible. It is important that members are able to understand their pension arrangements and make informed decisions where required.

208. Schemes should attempt to make contact with their scheme members and, where contact is not possible, schemes should carry out a tracing exercise to locate the member and ensure that their member data are up-to-date.

209. Where a person has made a request for information, schemes should acknowledge receipt if they are unable to provide the information at that stage. Schemes may encounter situations where the time period for providing information takes longer than expected. In these circumstances, schemes should notify the person and let them know when they are likely to receive the information. Scheme managers and managers (where different) must provide information in accordance with the time periods specified in the 2013 Act and Disclosure Regulations 2013.

210. To promote transparency, schemes should make information readily available at all times to ensure that prospective and existing members are able to access information when they require it.

Other legal requirements

211. Managers (or any other person specified in legislation) must comply with other legislation requiring information to be provided to members of public service pension schemes in certain circumstances. Not all requirements apply to all public service pension schemes and some may only arise in limited circumstances.

¹⁰⁹
Regulation 29 of the
Disclosure Regulations
2013.

Some of the requirements that schemes may need to be aware of are set out in or under the following legislation¹¹⁰:

- Occupational Pension Schemes (Contracting-out) Regulations 1996
- Occupational Pension Schemes (Transfer Values) Regulations 1996
- Occupational Pension Schemes (Winding up etc.) Regulations 2005
- Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 (the requirements of these regulations are covered in the section of this code on 'Internal dispute resolution').

110

The legislation identified in this list is made under section 113 of the Pension Schemes Act 1993. There are other requirements that relate to providing information to members which arise under other legislation and which may be relevant to public service pension schemes (for example, under legislation relating to automatic enrolment and early leavers).

Resolving issues

212. This part covers:

- internal dispute resolution, and
- reporting breaches of the law.

Internal dispute resolution

Legal requirements

213. Scheme managers¹¹¹ must make and implement dispute resolution arrangements that comply with the requirements of the law and help resolve pensions disputes between the scheme manager and a person with an interest in the scheme. 'Pension disputes'¹¹² cover matters relating to the scheme between the managers and one or more people with an interest in the scheme. These exclude 'exempted disputes'.

214. There are certain 'exempted disputes' to which the internal dispute resolution procedure will not apply¹¹³. This includes disputes where proceedings have commenced in any court or tribunal, or where the Pensions Ombudsman has commenced an investigation into it. Certain other prescribed disputes, for instance medical-related disputes that may arise in relation to police and fire and rescue workers, are also 'exempted disputes'¹¹⁴.

215. A person has an interest in the scheme if they:

- are a member or surviving non-dependant beneficiary of a deceased member of the scheme
- are a widow, widower, surviving civil partner or surviving dependant of a deceased member of the scheme
- are a prospective member of the scheme
- have ceased to be a member, beneficiary or prospective member or
- claim to be in one of the categories mentioned above and the dispute relates to whether they are such a person.

216. Dispute resolution arrangements may require people with an interest in the scheme to first refer matters in dispute to a 'specified person' in order for that person to consider and give their decision on those matters. The specified person's decision may then be confirmed or replaced by the decision taken by the scheme manager after reconsideration of the matters¹¹⁵.

111

Legal requirements relating to the internal dispute resolution provisions are imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

112

Section 50(3) of the Pensions Act 1995.

113

Section 50(9), *ibid.*

114

Regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008.

115

Section 50(4A) of the Pensions Act 1995.

217. Scheme managers and specified persons (if used as part of a scheme's procedure) must take the decision required on the matters in dispute within a reasonable period of receiving the application. They must notify the applicant of the decision within a reasonable period of having taken it¹¹⁶.
218. Internal dispute resolution procedures must state the manner in which an application for the resolution of a pension dispute is to be made, the particulars which must be included in such an application and the manner in which any decisions required in relation to such an application are to be reached and given¹¹⁷. The procedure must specify a reasonable period within which applications must be made by certain people¹¹⁸.
219. Scheme managers must provide information about the scheme's dispute resolution procedure as well as information about The Pensions Advisory Service (TPAS) and the Pensions Ombudsman to certain people at certain stages¹¹⁹.

Practical guidance

220. Scheme members expect their pension scheme to be managed effectively. Where a person with an interest in the scheme is not satisfied with any matter relating to the scheme (for example a decision which affects them), they have the right to ask for that matter to be reviewed.
221. Internal dispute resolution arrangements provide formal procedures and processes for pension scheme disputes to be investigated and decided upon quickly and effectively. They play a key role in the effective governance and administration of a scheme.
222. Schemes¹²⁰ can operate a two-stage procedure with a 'specified person' undertaking the first-stage decision. Alternatively, they may adopt a single-stage procedure if they consider that is more appropriate for their scheme.
223. With the exception of certain matters outlined below, the law does not prescribe the detail of the dispute resolution procedure. Schemes should decide on this and ensure it is fit for purpose.

116
Section 50(5) of the Pensions Act 1995.

117
Section 50B(4), *ibid*.

118
Section 50B(3)(a), *ibid*.

119
Regulation 6 of, and Part 1 of Schedule 2 to, the Disclosure Regulations 2013 and regulation 2 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures) (Consequential and Miscellaneous Amendments) Regulations 2008.

120
See paragraph 25 for the definition of 'schemes'.

When applications should be submitted

224. Schemes may choose to specify time limits within which the following people must apply for a dispute to be resolved¹²¹:

- scheme members
- widows, widowers, surviving civil partners or surviving dependants of deceased scheme members
- surviving non-dependant beneficiaries of deceased scheme members, and
- prospective scheme members.

225. If schemes decide to specify time limits, they should publish and make those time limits readily available to ensure that those with an interest in the scheme are aware that they must submit an application within a prescribed time limit.

226. Scheme managers must ensure their scheme's procedure specifies a reasonable period within which applications by the following people must be made¹²²:

- a person who has ceased to be within the categories in paragraph 224 above
- a person who claims that they were a person within the categories in paragraph 224 above and has ceased to be such a person, and the dispute relates to whether they are such a person.

227. A reasonable period would be six months beginning immediately after the date on which the person ceased to be, or claims they ceased to be, a person with an interest in the scheme. However, schemes have the flexibility to exercise their judgement and take an application outside a specified time period, if appropriate.

When decisions should be taken

228. Managers and specified persons (where applicable) must decide the matter in dispute within a reasonable period of receiving the application. A reasonable period is within four months of receiving the application. In the case of a two-stage dispute resolution procedure, the reasonable period applies to each stage separately. Where a dispute is referred to scheme managers for a second-stage decision, the reasonable period begins when the managers receive the referral. However, there may be cases where it will be possible to process an application sooner than the reasonable time given. Where this is the case, there should not be a delay in taking the decision.

121
Section 50B(3)(b) of the Pensions Act 1995.

122
Section 50B(3)(a) of the Pensions Act 1995.

229. There may be exceptional circumstances of a particular dispute which may prevent the process being completed within the reasonable time period stated above. For instance, where the dispute involves unusually complex and labour-intensive calculations or research, or delays occur that are outside the control of the scheme manager (or specified person), or because they need to obtain independent evidence.
230. The regulator recognises that the circumstances of each dispute are different and decision times may vary. Schemes should be satisfied that the time taken to reach a decision is appropriate to the situation and be able to demonstrate this, if necessary.

When applicants should be informed of a decision

231. Applicants must be notified of the decision made by a scheme manager and specified person (where applicable) within a reasonable time period after the decision has been made¹²³. Schemes should usually notify applicants of the decision no later than 15 working days after the decision has been made. However, there may be cases where it is possible to notify an applicant sooner than the reasonable time given. Where this is the case, there should not be a delay in notifying them of the decision.
232. Schemes should provide the applicant with regular updates on the progress of their investigation. They should notify the applicant where the time period for a decision is expected to be shorter or longer than the reasonable time period and let them know when they are likely to receive an outcome.

Implementing the procedure and processes

233. Scheme regulations or other documents recording policy about the administration of the scheme should specify internal dispute resolution arrangements. Schemes should focus on educating and raising awareness of their internal dispute resolution arrangements and ensuring that they are implemented.
234. Schemes should ensure that the effectiveness of the arrangements is assessed regularly and be satisfied that those following the process are complying with the requirements set, which includes effective decision making. This is particularly important where the arrangements require employers participating in the pension scheme to carry out duties as part of the process, for example where schemes have implemented the two-stage procedure and employers are acting as the specified person for the first stage.
235. Schemes should confirm and communicate their arrangements to members, for example, in the joining booklet. Schemes should make their arrangements accessible to potential applicants, for example by publishing them on a scheme website.

123
Section 50(5) of the
Pensions Act 1995.

236. Scheme managers must provide the following information about the procedure and processes the scheme has in place for the internal resolution of disputes to certain people in certain circumstances¹²⁴:
- prospective members, if it is practicable to do so
 - any scheme members who have not already been given the information
 - certain relevant people who request the information and who have not been given that information in the previous 12 months, and
 - members or prospective members when schemes receive jobholder information, or when a jobholder becomes an active member, in connection with automatic enrolment.

237. Scheme managers must also provide the postal or email address and job title of the person to contact in order to make use of the internal dispute arrangements.

238. In addition, scheme managers must provide information about TPAS and the Pensions Ombudsman at certain stages¹²⁵. Upon receiving an application for the resolution of a pension dispute, scheme managers (or the specified person) must make the applicant aware as soon as reasonably practicable that TPAS is available to assist members and beneficiaries of the scheme and provide contact details for TPAS. When notifying the applicant of the decision, scheme managers must also inform the applicant that the Pensions Ombudsman is available to investigate and determine complaints or disputes of fact or law relating to a public service pension scheme and provide the Pension Ombudsman's contact details.

239. Schemes can decide what information they need from applicants to reach a decision on a disputed matter and how applications should be submitted. Schemes should ensure they make the following information available to applicants:

- the procedure and processes to apply for a dispute to be resolved
- the information that an applicant must include
- the process by which any decisions are reached, and
- an acknowledgement once an application has been received.

124
Regulation 6 of, and Part 1 of Schedule 2 to, the Disclosure Regulations 2013.

125
Regulation 2 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures) (Consequential and Miscellaneous Amendments) Regulations 2008.

240. When reviewing an application, scheme managers and specified persons (where relevant) should ensure that they have all the appropriate information to make an informed decision. They should request further information if required. Scheme managers and specified persons should be satisfied that the times taken to reach a decision and notify the applicant are appropriate to the situation and that they have taken the necessary action to meet the reasonable time periods. Scheme managers should be able to demonstrate this to the regulator if required.

Reporting breaches of the law

Legal requirements

241. Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty¹²⁶ which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions¹²⁷.

For further information about reporting late payments of employee or employer contributions, see the section of this code on 'Maintaining contributions'.

242. People who are subject to the reporting requirement ('reporters') for public service pension schemes are:

- scheme managers¹²⁸
- members of pension boards
- any person who is otherwise involved in the administration of a public service pension scheme
- employers¹²⁹: in the case of a multi-employer scheme, any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers
- professional advisers¹³⁰ including auditors, actuaries, legal advisers and fund managers: not all public service pension schemes are subject to the same legal requirements to appoint professional advisers, but nonetheless the regulator expects that all schemes will have professional advisers, either resulting from other legal requirements or simply as a matter of practice
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme¹³¹.

243. The report must be made in writing as soon as reasonably practicable¹³². See paragraph 263 for further information about how to report breaches.

126

The reference to a legal duty is to a duty imposed by, or by virtue of, an enactment or rule of law (s70(2)(a) of the Pensions Act 2004).

127

Section 70(2) of the Pensions Act 2004.

128

The legal requirement to report breaches of the law under section 70(1)(a) is imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

129

As defined in s318 of the Pensions Act 2004.

130

As defined in s47 of the Pensions Act 1995.

131

Section 70(1) of the Pensions Act 2004.

132

Section 70(2), *ibid.*

Practical guidance

244. Schemes¹³³ should be satisfied that those responsible for reporting breaches are made aware of the legal requirements and this guidance. Schemes should provide training for scheme managers and pension board members. All others under the statutory duty to report should ensure they have a sufficient level of knowledge and understanding to fulfil that duty. This means having sufficient familiarity with the legal requirements and procedures and processes for reporting.

Implementing adequate procedures

245. Identifying and assessing a breach of the law is important in reducing risk and providing an early warning of possible malpractice in public service pension schemes. Those people with a responsibility to report breaches, including scheme managers and pension board members, should establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations. Procedures should enable people to raise concerns and facilitate the objective consideration of those matters. It is important that procedures allow reporters to decide within an appropriate timescale whether they must report a breach. Reporters should not rely on waiting for others to report.

246. Procedures should include the following features:

- a process for obtaining clarification of the law around the suspected breach where needed
- a process for clarifying the facts around the suspected breach where they are not known
- a process for consideration of the material significance of the breach by taking into account its cause, effect, the reaction to it, and its wider implications, including (where appropriate) dialogue with the scheme manager or pension board
- a clear process for referral to the appropriate level of seniority at which decisions can be made on whether to report to the regulator
- an established procedure for dealing with difficult cases
- a timeframe for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable
- a system to record breaches even if they are not reported to the regulator (the record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal a systemic issue), and
- a process for identifying promptly any breaches that are so serious they must always be reported.

133
See paragraph 25
for the definition of
'schemes'.

Judging whether a breach must be reported

247. Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and, for funded pension schemes, making investment or investment-related decisions.

Judging whether there is 'reasonable cause'

248. Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

249. Reporters should ensure that where a breach is suspected, they carry out checks to establish whether or not a breach has in fact occurred. For example, a member of a funded pension scheme may allege that there has been a misappropriation of scheme assets where they have seen in the annual accounts that the scheme's assets have fallen. However, the real reason for the apparent loss in value of scheme assets may be due to the behaviour of the stock market over the period. This would mean that there is not reasonable cause to believe that a breach has occurred.

250. Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to check with the pension board or scheme manager or with others who are in a position to confirm what has happened. It would not be appropriate to check in cases of theft, suspected fraud or other serious offences where discussions might alert those implicated or impede the actions of the police or a regulatory authority. Under these circumstances the reporter should alert the regulator without delay.

251. If the reporter is unclear about the relevant legal provision, they should clarify their understanding of the law to the extent necessary to form a view.

252. In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the regulator may require before taking legal action. A delay in reporting may exacerbate or increase the risk of the breach.

Judging what is of 'material significance' to the regulator

253. In deciding whether a breach is likely to be of 'material significance' to the regulator. It would be advisable for those with a statutory duty to report to consider the:

- cause of the breach
- effect of the breach
- reaction to the breach, and
- wider implications of the breach.

254. When deciding whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice, where appropriate, when deciding whether the breach is likely to be of material significance to the regulator.

Cause of the breach

255. The breach is likely to be of material significance to the regulator where it was caused by:

- dishonesty
- poor governance or administration
- slow or inappropriate decision making practices
- incomplete or inaccurate advice, or
- acting (or failing to act) in deliberate contravention of the law.

256. When deciding whether a breach is of material significance, those responsible should consider other reported and unreported breaches of which they are aware. However, historical information should be considered with care, particularly if changes have been made to address previously identified problems.

257. A breach will not normally be materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances. But in such a situation, it is also important to consider other aspects of the breach such as the effect it has had and to be aware that persistent isolated breaches could be indicative of wider scheme issues.

Effect of the breach

258. Reporters need to consider the effects of any breach, but with the regulator's role in relation to public service pension schemes and its statutory objectives in mind, the following matters in particular should be considered likely to be of material significance to the regulator:

- pension board members not having the appropriate degree of knowledge and understanding, which may result in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- pension board members having a conflict of interest, which may result in them being prejudiced in the way that they carry out their role, ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- adequate internal controls not being established and operated, which may lead to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time
- accurate information about benefits and scheme administration not being provided to scheme members and others, which may result in members not being able to effectively plan or make decisions about their retirement
- appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- pension board members misappropriating any assets of the scheme or being likely to do so, which may result in scheme assets not being safeguarded, and
- any other breach which may result in the scheme being poorly governed, managed or administered.

259. Reporters need to take care to consider the effects of the breach, including any other breaches occurring as a result of the initial breach and the effects of those resulting breaches.

Reaction to the breach

260. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the regulator will not normally consider this to be materially significant.

261. A breach is likely to be of concern and material significance to the regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

Wider implications of the breach

262. Reporters should consider the wider implications of a breach when they assess which breaches are likely to be materially significant to the regulator. For example, a breach is likely to be of material significance where the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future. This may be due to the scheme manager or pension board members having a lack of appropriate knowledge and understanding to fulfil their responsibilities or where other pension schemes may be affected. For instance, public service pension schemes administered by the same organisation may be detrimentally affected where a system failure has caused the breach to occur.

Submitting a report to the regulator

263. Reports must be submitted in writing and can be sent by post or electronically, including by email or by fax. Wherever possible reporters should use the standard format available via the Exchange online service on the regulator's website.

264. The report should be dated and include as a minimum:

- full name of the scheme
- description of the breach or breaches
- any relevant dates
- name of the employer or scheme manager (where known)
- name, position and contact details of the reporter, and
- role of the reporter in relation to the scheme.

265. Additional information that would help the regulator includes:

- the reason the breach is thought to be of material significance to the regulator
- the address of the scheme
- the contact details of the scheme manager (if different to the scheme address)
- the pension scheme's registry number (if available), and
- whether the concern has been reported before.

266. Reporters should mark urgent reports as such and draw attention to matters they consider particularly serious. They can precede a written report with a telephone call, if appropriate.
267. Reporters should ensure they receive an acknowledgement for any report they send to the regulator. Only when they receive an acknowledgement can the reporter be confident that the regulator has received their report.
268. The regulator will acknowledge all reports within five working days of receipt, however it will not generally keep a reporter informed of the steps taken in response to a report of a breach as there are restrictions on the information it can disclose.
269. The reporter should provide further information or reports of further breaches if this may help the regulator to exercise its functions. The regulator may make contact to request further information.
270. Breaches should be reported as soon as reasonably practicable, which will depend on the circumstances. In particular, the time taken should reflect the seriousness of the suspected breach.
271. In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, the regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert the regulator to the breach.

Whistleblowing protection and confidentiality

272. The Pensions Act 2004 makes clear that the statutory duty to report overrides any other duties a reporter may have such as confidentiality and that any such duty is not breached by making a report. The regulator understands the potential impact of a report on relationships, for example, between an employee and their employer.
273. The statutory duty to report does not, however, override 'legal privilege'¹³⁴. This means that oral and written communications between a professional legal adviser and their client, or a person representing that client, while obtaining legal advice, do not have to be disclosed. Where appropriate a legal adviser will be able to provide further information on this.

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Section 311 of the
Pensions Act 2004.

274. The regulator will do its best to protect a reporter's identity (if desired) and will not disclose the information except where lawfully required to do so. It will take all reasonable steps to maintain confidentiality, but it cannot give any categorical assurances as the circumstances may mean that disclosure of the reporter's identity becomes unavoidable in law. This includes circumstances where the regulator is ordered by a court to disclose it.
275. The Employment Rights Act 1996 (ERA) provides protection for employees making a whistleblowing disclosure to the regulator. Consequently, where individuals employed by firms or another organisation having a statutory duty to report disagree with a decision not to report to the regulator, they may have protection under the ERA if they make an individual report in good faith. The regulator expects such individual reports to be rare and confined to the most serious cases.

Appendix

Corresponding Northern Ireland legislation

GB legislation	NI legislation
Pension Schemes Act 1993 (c. 48) - Chapter 1 of Part 4 - section 113	Pension Schemes (Northern Ireland) Act 1993 (c. 49) - Chapter 1 of Part 4 - section 109
Pensions Act 1995 (c. 26) - section 47 - section 49 - section 50 - section 50B - section 87	Pensions (Northern Ireland) Order 1995 (SI 1995/3213 (NI 22)) - Article 47 - Article 49 - Article 50 - Article 50B - Article 85
Employment Rights Act 1996 (c. 18)	Employment Rights (Northern Ireland) Order 1996 (SI 1996/1919 (NI 16))
Data Protection Act 1998 (c. 29)	Data Protection Act 1998 (c. 29)
Freedom of Information Act 2000 (c.36)	Freedom of Information Act 2000 (c.36)
Pensions Act 2004 (c. 35) - section 5 - section 13 - section 70 - section 70A - section 90A - Part 3 - section 227 - section 248 - section 248A - section 249A - section 249B - section 311 - section 318	Pensions (Northern Ireland) Order 2005 (SI 2005/255 (NI 1)) - Article 4 - Article 9 - Article 65 - Article 65A - Article 85A - Part 4 - Article 206 - Article 225 - Article 225A - Article 226A - Article 226B - Article 283 - Article 2
Pensions Act 2008 (c. 30)	Pensions (No. 2) Act (Northern Ireland) 2008 (c. 13)

GB legislation	NI legislation
Public Service Pensions Act 2013 (c. 25) <ul style="list-style-type: none"> - section 1 - section 2 - section 3 - section 4 - section 5 - section 6 - section 7 - section 14 - section 15 - section 16 - section 28 - section 30 - Schedule 2 - Schedule 3 	Public Service Pensions Act (Northern Ireland) 2014 (c. 2) <ul style="list-style-type: none"> - section 1 - section 2 - section 3 - section 4 - section 5 - section 6 - section 7 - section 14 - section 15 - section 16 - section 28 - section 31 - Schedule 2 - Schedule 3
Occupational Pension Schemes (Managers) Regulations 1986 (SI 1986/1718)	Occupational Pension Schemes (Managers) Regulations (Northern Ireland) 1986 (SR 1986 No. 320)
Occupational Pension Schemes (Contracting-out) Regulations 1996 (SI 1996/1172)	Occupational Pension Schemes (Contracting-out) Regulations (Northern Ireland) 1996 (SR 1996 No. 493)
Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715)	Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997 No. 94)
Occupational Pension Schemes (Transfer Values) Regulations 1996 (SI 1996/1847)	Occupational Pension Schemes (Transfer Values) Regulations (Northern Ireland) 1996 (SR 1996 No. 619)
Occupational Pension Schemes (Winding up etc.) Regulations 2005 (SI 2005/706)	Occupational Pension Schemes (Winding up, etc.) Regulations (Northern Ireland) 2005 (SR 2005 No. 171)
Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377)	Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005 (SR 2005 No. 568)
Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)	Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)

GB legislation	NI legislation
Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 (SI 2008/649)	Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008 (SR 2008 No. 116)
Employers' Duties (Registration and Compliance) Regulations 2010 (SI 2010/5)	Employers' Duties (Registration and Compliance) Regulations (Northern Ireland) 2010 (SR 2010 No. 186)
Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 (SI 2010/772)	Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations (Northern Ireland) 2010 (SR 2010 No. 122)
Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734)	Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014 (SR 2014 No. 79)
Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014	Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014

How to contact us

Napier House
Trafalgar Place
Brighton
BN1 4DW

T 0845 600 0707

F 0870 241 1144

E customersupport@thepensionsregulator.gov.uk

www.thepensionsregulator.gov.uk

The Pensions
Regulator

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