



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

Date: 24 October 2019

**Committee:
Pensions Board**

Date: Friday, 1 November 2019

Time: 9.30 am

Venue: Bridgnorth 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 Pensions Board

Liz Furey – Employer Rep
Philip Ingle – Employer Rep
Mike Morris – Pensioner Rep (Chairman)
John Hall – Pensioner Rep

Your Committee Officer is:

Michelle Dulson Committee Officer

Tel: 01743 257719

Email: michelle.dulson@shropshire.gov.uk

AGENDA

1 Apologies

2 Declarations of Conflicts of Interest

Members are reminded that they should declare any interests which may lead to conflicts of interest in the subject area or any specific agenda item of this meeting. A conflict of interest is defined as 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 LGPS.

3 Minutes of the previous meeting (Pages 1 - 6)

The Minutes of the meeting held on 3 May 2019 are attached for confirmation.
Contact: Michelle Dulson (01743) 257719

4 Public Question Time

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 9.30am on Wednesday 30 October 2019.

5 Administration and Regulatory Updates (Pages 7 - 14)

Report attached.
Contact: Debbie Sharp (01743) 252192

6 Pensions Committee Reports and Feedback - Exempt reports to be discussed in exempt session of the meeting.

To highlight any papers/reports arising from the recent Pensions Committee meeting which may of relevance to the Board.

Please click on the link below to access the reports considered by the Pensions Committee at its last meeting on 4 October 2019.

<http://shropshire.gov.uk/committee-services/ieListDocuments.aspx?CId=260&MId=4032&Ver=4>

7 Update on the Triennial Actuarial evaluation

To receive a verbal update.

8 Date of Next Meeting

9 Exclusion of Press and Public

To RESOLVE that in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

10 LGPS Central

To receive a verbal update.

11 Overview of recorded breaches and governance update (Pages 15 - 28)

Report attached.
Contact: Rebecca Clough (01743) 254457

12 Training update (Pages 29 - 32)

Report attached.
Contact: Rebecca Clough (01743) 254457

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Committee and Date

Pensions Board

1 November 2019

PENSIONS BOARD

Minutes of the meeting held on 3 May 2019

In the Oswestry Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

9.30am-12.20pm

Responsible Officer: Michelle Dulson

Email: michelle.dulson@shropshire.gov.uk Tel: 01743 257719

Present

46 Apologies

46.1 No apologies were received.

47 Declarations of Conflicts of Interest

47.1 No conflicts of interest were declared.

48 Minutes of the previous meeting

48.1 In relation to paragraph 36.3 of the Minutes, it was confirmed that an update on the tracing exercise was provided in the Administration and Regulatory update report for this meeting (Agenda Item 12).

48.2 In relation to paragraph 36.6, it was confirmed that no emails had yet been received for Board Members however a reminder had been included in the 'In Touch' publication.

48.3 RESOLVED:

That the Minutes of the meeting held on 16 November 2018 be approved and signed by the Chairman as a correct record.

49 Public Question Time

49.1 No public questions were received.

49.2 A brief discussion ensued in relation to ways in which to increase communication with the public.

50 LGPS Central

- 50.1 A presentation was given by Mike Weston, Chief Executive and Callum Campbell, Head of Client Services for LGPS Central (copy of slides attached to signed Minutes) which covered the following areas:
- Introduction
 - Our Shared Objectives
 - Progress to Date
 - Key Performance Indicators
 - Governance and Oversight
 - Responsible Investment and Engagement
 - Our People
 - How we communicate
- 50.2 The Chairman informed the Chief Executive and Head of Client Services that some concern had been raised at the Pensions Board Chairs meeting that the payback was not going to materialise in the timeframe promised and that the amount expected back was not as much. The Chief Executive explained that he had been in discussions with the Local Authorities concerned and explained about the benefits and economies of scale coming from investments and the more you invest, the more you save. He informed the Board that different funds were more involved than others so it was difficult to predict more accurately.
- 50.3 In response to a query, the Chief Executive explained that they chose managers who they felt would perform best before discussing price. He informed the meeting that the eight partner funds did challenge those decisions about how managers and advisers were chosen as they were aware that they did not have the monopoly on experience so did take advice from partner funds who brought a different angle to the recruitment process.
- 50.4 The Chief Executive went on to explain that strategic asset allocation remained the prerogative of the Pension Funds themselves and that was where advisers could add significant value in order to advise the Central fund before asset classes were chosen.
- 50.5 A question was raised about what the 'Business as usual' timescale was. The Chief Executive confirmed this would be when the bulk of transitions into the Central fund had happened. It was suggested that 2020 was a very aggressive timescale and difficult to achieve.
- 50.6 In response to a query it was confirmed that residual assets would remain with partner funds. The Director of Finance, Governance and Assurance (Section 151 Officer) responded to a query in relation to residual assets and felt the only issue would be if other funds wanted to go in a certain direction that did not fit with Shropshire's requirement. The Head of Treasury and Pensions informed the Board that Shropshire was quite different to some of the other funds as it was towards 100% funded and had invested in certain asset classes specific to Shropshire. In response to a query, the Head of Treasury and Pensions confirmed that the decision

about which asset classes to invest in remained with the individual Pensions Committees.

50.6 A brief discussion ensued in relation to the ability to withdraw funds from the Central pool if, for example, Shropshire wished to put more funds into an asset class not supported by the Central fund. This could, in theory, be achieved, however it was hoped that in this instance something mutually beneficial could be found. Discussion then turned to the collation and monitoring of investments which would be undertaken by the Scheme Advisory Board.

50.7 The Head of Treasury and Pensions confirmed that a response to the CIPFA Pooling Guidance Consultation had been done on behalf of the Shropshire County Pension Fund. The Chief Executive informed the Board that the LGPS Central Annual Report for the year end to March 2019 would be published late May/early June.

50.8 In response to a query, the Chief Executive explained how the audit process worked and the Head of Treasury and Pensions assured the Board that officers were happy with the arrangements. The Chief Executive went on to talk about responsible investment and informed the Board that there was a specific responsible investment team within the Central fund with a bespoke strategy of engaging rather than excluding in order to influence change. He then took Board Members through their approach to Governance and Oversight.

50.9 The Head of Client Services informed the Board of the various methods of communication with Partner Funds through the Practitioner Advisory Forum and various sub-groups, publications, conferences etc which he felt was a very important part of their job. In relation to interaction with other pools, the Chief Executive highlighted the Cross Pool Working Groups attended by five other pools and the Head of Treasury and Pensions reported that there was an officer Cross Pool Working Group also.

50.10 In conclusion, Members thanked the Chief Executive and Head of Client Services for their attendance which they had found to be very useful and hoped that they would engage with the Pensions Board on a regular basis.

51 Pensions Board Chairs meeting

51.1 The Chairman updated the Board in relation to the recent Pensions Board Chairs meeting. He reported that the following issues were discussed:

- Turnover of Membership Boards;
- Tailored training for Board Members;
- Worcester County Council were unhappy about changes to the payback period and revisions to the cost sharing. Nottingham County Council would not make any savings whilst Shropshire Council would save £36m over 30 years;
- Set up costs $\frac{1}{8}$ th, based on assets under management, others split equally.

51.2 The Chairman felt that Board Member attendance at these meetings was very important. He agreed to feedback to the Board following the next meeting on 9 July.

52 Specific Risk Register matrix for the Shropshire Pension Board

52.1 The Communications and Governance Team Leader circulated a Risk Register based on that from Cheshire Pension Board (copy attached to the signed Minutes) and requested that Members took this away and let her have any comments. Once the Board were happy the Risk Register could be adopted and put on the website.

52.2 The Director of Finance, Governance and Assurance (Section 151 Officer) explained that a meeting could be arranged with the Internal Risk Manager in order to facilitate identification of risk, risk scoring, targets etc. He confirmed that the Risk Register could be adopted in the first instance and any amendments required could be made following the session with the Internal Risk Manager. The targets would then be reviewed annually.

53 Pensions Committee Reports and Feedback - Exempt reports to be discussed in exempt session of the meeting.

53.1 The reports considered by the Pensions Committee at its meeting on 15 March 2019 had been received by the Board. John Hall reported that he had attended the last two meetings of the Pensions Committee and he updated the Board.

53.2 Concern was raised around the continued value of assets and the Head of Finance, Governance and Assurance (Section 151 Officer) explained non-rebuttable risk whereby the Council needed to demonstrate separation of duties. The Head of Treasury and Pensions explained that hard to value investments could go up or down so an estimate was made.

53.3 In response to a query, the Head of Treasury and Pensions explained how assets were liquidated. He informed the meeting that the external auditors, Grant Thornton, were appointed in 2017 by the LGA.

53.4 The Head of Treasury and Pensions explained how risks were mitigated via equity protection as a short to medium-term measure.

53.5 It was agreed to circulate a draft of the Pension Board Chairman's report to members of the Board.

54 Liverpool Spring Workshop

54.1 John Hall updated the Board following his attendance at the Liverpool Spring Workshop.

55 Admitted Bodies

55.1 The Pensions Manager introduced and amplified her report (copy attached to the signed Minutes) which provided information on the status of admitted bodies within the Shropshire County Pension Fund. She informed the meeting that this would be updated at the end of the financial year following the valuation.

55.2 In response to a query the Pensions Manager explained that if an Academy ceased to exist, the fund liabilities would be paid by the Dfe. In relation to historic bodies without guarantees, the Pensions Manager confirmed that a lot of these were covered by bonds.

55.3 RESOLVED:

That the contents of the report be noted.

56 Report on Breaches of LGPS Regulations

56.1 The Board received the report of the Communications and Governance Team Leader – copy attached to the signed Minutes – which provided an update on the Breaches of LGPS regulations recorded for 2018/19 affecting the Shropshire County Pension Fund.

56.2 The Communications and Governance Team Leader explained that the log was for the three months following the last Pensions Committee. It showed that the number of employer related breaches had reduced. She reported that the template would be changed for 2019/20 to include more detail.

56.3 RESOLVED:

That the contents of the report be noted.

57 Administration and Regulatory Updates

57.1 The Board received the report of the Pensions Manager – copy attached to the signed Minutes – which provided Members with the latest administration and regulatory updates affecting the Local Government Pension Scheme.

57.2 The Pensions Manager draw attention to the consultation on limiting Exit Payments for public sector workers and explained the implications of this.

57.3 In response to a query, the Pensions Manager informed the Board that SCAPE stood for Superannuation Contributions Adjusted for Past Experience.

57.4 RESOLVED:

That the contents of the report be noted.

58 Pensions Dashboard

58.1 The Pensions Manager introduced and amplified her report (copy attached to the signed Minutes) which provided Members with the latest news on the national pension dashboard project).

59 AOB

59.1 None.

60 Board and Committee Training update

60.1 The Communications and Governance Team Leader informed Board Members of the following training opportunities:

- 27 June Training in Wolverhampton 10am-4pm
- 9 July Responsible Investment LGPS Birmingham 10am-4pm
- 15 November Actuarial meeting
- LGA Fundamentals 3 day training course
- January 2020 LGA Governance Conference

61 Date of Next Meeting

61.1 It was agreed to hold the next meeting of the Pensions Board after the meeting of the Pensions Committee on 5 December 2019.

NB. The next meeting was scheduled to take place on Friday 1 November at 9.30am in the Bridgnorth Room.

Signed (Chairman)

Date:



Committee and date

Pensions Board

1 November 2019

9.30am

Item

Public

Administration and regulatory updates

Responsible Officer Debbie Sharp

Email: debbie.sharp@shropshire.gov.uk

Tel: 01743 252192

1. Summary

The report provides Pension Board members with the latest administration and regulatory updates affecting the Local Government Pension Scheme (LGPS).

2. Recommendations

- 2.1 Pension Board members are asked to note the contents of this report and;
- 2.2 to agree, with or without comment, the Fund's approach to updating the data improvement plan.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Risk Management

By ensuring the guidance and legislation mentioned in this report is followed and adhered to, risks to the fund are minimised. A risk register is kept and updated in line with council corporate policy.

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

Currently there are no direct financial implications arising from this report.

4. Administration topics covered at Pensions Committee since the last Pensions Board meeting

- 4.1** In addition to this report the Pensions Board are advised to note the pensions administration reports submitted to the Pension Committee on 24 July 2019 and the 4 October 2019.

5. Latest consultations – an update

At the previous Pension Board meeting on 3 May 2019, an update was given about a number of ongoing consultations affecting the LGPS. The latest position of these consultations is below:

5.1 Exit payments

A consultation about restricting exit payments in the public sector was published on 10 April 2019 and closed on 3 July 2019. A response sent by officers raised concerns that, as currently drafted, there is not enough detail about how these restrictions will interact with LGPS regulations, particularly around the inclusion of pension strain under the cap. Also, without changes the restrictions are likely to affect workers who have long service but are not highly paid. HM Treasury received approximately 600 responses and have reported that their response will be released in the autumn of 2019. They have further confirmed that there is no intention to introduce the cap before 1 April 2020.

5.2 New fair deal

The Ministry of Housing, Communities, and Local Government (MHCLG) consultation on 'Fair deal – strengthening pension protection' in the LGPS closed on 4 April 2019. This was summarised at the previous Pension Board meeting. MHCLG have since confirmed that work on the policy is ongoing. A further update is expected at the national LGPS technical group on 10 December 2019. The consultation documents and the response sent by the Local Government Pension Committee can be found on the scheme consultations page of www.lgpsregs.org

5.3 The Implementation of new late retirement factors

In July 2019 MHCLG issued updated late retirement guidance following the consultation which closed on 17 April 2019. The new guidance and factors applied from 1 September 2019. The new methodology removes the 'cliff edge' effect which reduced the value of LGPS benefits held by members who were over their normal pension age when the factors last changed in January 2017.

5.4 Changes to the local valuation cycle and the management of employer risk

A further consultation was published on 8 May 2019 by MHCLG asking for views on changes to the local valuation cycle and the management of employer risk.

The consultation covered the following areas:

- A change to local fund valuations from the current three-year (triennial) to a four-year (quadrennial) cycle

- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- proposals for flexibility on exit payments
- proposals for further policy changes to exit credits
- proposals for changes to the employers required to offer local government pension scheme membership

The consultation closed on 31 July 2019. MHCLG received around 280 responses. They expect to publish their response towards the end of the year.

6. McCloud and Sergeant Case

- 6.1** As previously reported, the case is about the transitional protections given to members of the judges and firefighter pension schemes when the schemes were reformed in 2015, as part of the public sector pension scheme reforms.
- 6.2** On 20 December 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified. The government appealed this decision however, the Supreme Court denied the government right to appeal on 27 June 2019. This means that the Court of Appeal's decision is upheld and the case has returned to an employment tribunal for a remedy decision. The outcome of this ruling will increase the cost of the scheme as any remedy must be 'upwards' not 'downwards'. Therefore, the cost management processes paused earlier in the year will need to be re-run once the cost of the McCloud and Sergeant remedy is known. The cost management page of the English and Welsh SAB website contains information on the case:
<http://www.lgpsboard.org/index.php/structure-reform/costmanagement/ccmcloud>
- 6.3** HM Treasury and MHCLG have sent an information request to all LGPS funds asking for data from 2014/2015 to 2018/2019. This is aimed at capturing the number of members with transitional protection where the underpin has bitten at underpin date and where a pensions saving statement was issued in the year. The number of members issued with a lifetime allowance charge and the number of members who have opted out, have also been requested. This information is needed to help with policy planning for the McCloud case and wider pensions tax issues affecting the public sector.
- 6.4** Guidance from Local Government Association (LGA) recently suggested that funds should contact scheme employers to check if individual member hours history from 1 April 2014 is available, if this has not already been given. If the final salary underpin is extended, this information will be needed to work out this benefit for all members who

have service before 1 April 2014. This will be communicated to Shropshire's scheme employers.

7. The Pensions Regulator (TPR) deep dive results

On 19 September, the Pensions Regulator (TPR) published a report on the findings from its engagement with ten local government funds. The engagement took place between October 2018 and July 2019. The report can be found here:

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

It sums up their key findings against the Regulator's Code of Practice 14 both in terms of exceeding and falling short of required standards within the funds analysed. The Scheme Advisory Board (England and Wales) will discuss the report in detail at their next meeting on 6 November 2019.

7.1 The key findings and recommendations for improvement were in;

- Record keeping
- Internal controls
- Administrators
- Member communications
- Internal dispute resolution procedures
- Pension Boards
- Employers and contributions
- Cyber security
- Internal fraud and false claims

When publishing the findings, TPR stated:

'We carried out this review at a high level based on meetings with scheme managers to understand the challenges they face. The meetings were supplemented by a review of some fund documentation and examples of communications sent to members, prospective members and beneficiaries.'

'It is not a comprehensive evaluation of the funds' operations and is not intended to replace audit requirements, nor is it to be considered as regulatory assurance or an endorsement of the fund by The Pensions Regulator (TPR).'

Pension board members should note the findings in the TPR's report for Board members to demonstrate knowledge and understanding of scheme administration requirements. This will assist scheme managers to secure compliance, and ensure effective and efficient governance and administration of the LGPS. Pension Board members are invited to help officers review the findings of the report.

A high-level commentary on the key four areas highlighted by the report has been provided below. Officers are doing a thorough review of the report against current practices. If this review shows improvements are needed, this will be reported back to the board.

7.2 TPR risk area 1 - Key person risk

'While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the local authority with little interaction between the scheme manager and local authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.'

Fund comment on risk area 1: The fund has all policies required by LGPS rules in place and has taken decisions to ensure that any controls put in place by the local authority do not adversely affected the fund.

7.3 TPR risk area 2 - Pension boards

'Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.'

Fund comment on risk area 2: Engagement of pension board members has been high, demonstrated by the lack of long-term vacancies on the board, no cancelled meetings and regular reporting on issues such as breaches and compliance with scheme regulations. Training has also been undertaken by all board members to increase knowledge and understanding. A recent review shows an increase in knowledge of board members. Frequency of Pension Board meetings is consistent with the board's current terms of reference but should be considered for review.

7.4 TPR risk area 3 - Fraud / scams:

'We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.'

Fund comment on risk area 3: The fund has followed national guidance when dealing with transfer out requests of member benefits. TPR scam warning leaflets and forms produced by the LGPS secretariat are used. Transfer out data requests from third parties are not acted upon.

7.5 TPR risk area 4 - Employers:

'We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally, this was connected to fund resourcing but also related to different philosophies related to taking security over assets.'

Fund comment on risk area 4: The fund reviews employer risk and has recently provided an update to the board on this area. Any performance issues are recorded on the fund's breaches log and the employer contacted with an offer of support to improve.

8. 2019 scheme return data quality scores and data improvement plan

8.1 As part of TPR's scheme return, funds must provide a "data score" in respect of the presence and accuracy of common and scheme specific data. There are eleven key data items considered common to all pension schemes. They are surname and initials, NI number, date of birth, gender, date joined scheme, target retirement date, membership status, date of last status change, address and postcode. TPR outline some scheme-specific data but do not set prescriptive targets as the data is held to be scheme-specific.

8.2 The fund undertook its first data quality review in 2017. This was rerun in July 2019 with the results received in early September 2019. As well as measuring data to work out the scores to be reported to the TPR, the fund also performs extended tests on member data which go beyond TPR requirements. The recent results can be found below.

	2017 data quality score (reported to TPR)	2019 data quality score (to be reported to TPR this year)	2019 data quality score (extended tests)
Common data	92.76%	96.1%	95.9%
Scheme specific data	80.9%	96.2%*	86.2%

*Based on Scheme Advisory Board (SAB) scheme specific data items list issued in July 2019

8.3 There has been an improvement in both the common and scheme specific data scores reported to TPR in 2017. TPR expects that funds with scores under 100% have a data improvement plan (DIP) in place. Officers are updating the current data improvement plan following the latest results, to demonstrate the next steps the fund is taking to improve its data. Priority areas for improvement will be the key data highlighted by SAB as scheme specific which directly relates to TPR data scores, address tracing/verification for gone away records and any data relating to the GMP reconciliation project. Pension board

members are asked to agree, with or without further comment, on the priority areas suggested.

9. Update of Communications Policy

9.1 Regulation 61 of the LGPS regulations 2013 sets out that administering authority must prepare, maintain and publish a written statement setting out its policy for communications with:

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) scheme employers.

The current version of the policy is being reviewed and pension board members and employers will be asked to comment on the updated policy. It is expected the policy will be updated by the end of the year.

9.2 Communication with members affected by the pension tax allowances; the annual allowance and lifetime allowance, is being looked at by officers. A proposal has been made by the fund actuary to provide group presentations, one-to-one guidance sessions and to enable the provision of regulated financial advice at member's own cost, if needed.

10. Employers and annual meeting reminder of dates

10.1 The annual meeting is due to take place on 28 November 2019, 11am to 1pm, in the Council Chamber, Shirehall, Shrewsbury, SY2 6ND. This meeting has been advertised to all scheme members and employers via email, member newsletters and the fund's website. It has also been featured in the latest editions of the InTouch magazine for retired members.

10.2 The employers' meeting is planned for 15 November 2019 from 9am until 1pm. All employers have been invited to the meeting and are strongly encouraged to attend as the meeting will include an update from the actuary about the 2019 valuation. Employers will also receive their new employer contribution rate, to be in place from 1 April 2020.

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

Item 10 – Pensions Committee, Administration Update - 4 October 2019

Item 13 – Pensions Committee, Administration Update - 24 July 2019

Item 12 – Pensions Board, Administration and Regulatory Update - 3 May 2019

Cabinet Member (Portfolio Holder)

N/A

Local Member

N/A

Appendices

N/A

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

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