CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

5 July 2017

Report title	Regulatory Update 2017	
Originating service	Pensions	
Accountable employee(s)	Rachel Howe Tel Email	Head of Governance 01902 552091 Rachel.Howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.brothwood@wolverhampton.gov.uk

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Recommendations for noting:

The Board is asked to note:

1. The regulatory updates from the Scheme Advisory Board and the Pensions Regulator and the work of the Fund to ensure it has effective arrangements in place to ensure compliance.

1.0 Purpose

1.1 To provide the Board with regulatory updates and guidance from national bodies and to outline the steps taken by the Fund to ensure its compliance.

2.0 Background

2.1 The Scheme Advisory Board was created under the Public Service Pensions Act 2013. The purpose of the Board is to be both reactive and proactive, seeking to encourage best practice, increase transparency and coordinate technical and standards issues.

2.2 The Pensions Regulator took over responsibility for public service pensions schemes under the same Act and has responsibility for regulatory oversight of LGPS Funds ensuring their compliance with legislation and statutory guidance. The TPR has issued a code of practice detailing the standards they expect from a well governed scheme.

3.0 Scheme Advisory Board Annual Report

3.1 In line with its Regulatory duty, the national Scheme Advisory Board (SAB) every year produces its Scheme Annual Report highlighting national averages in areas such as investment returns, asset allocation, funding and governance.

3.2 The SAB produces its report based on published annual report and accounts of all LGPS Funds across England and Wales. It is therefore produced retrospectively each year. This latest report highlights the average position from the 2016 reports, and is a useful point of reference for a variety of stakeholders.

3.3 Key LGPS highlights for the year to 31 March 2016 as noted by the SAB include:

- The total membership of the LGPS grew by 134,000 (2.5%) to 5.3m members in 2016 from 5.2m in 2015 and the number of LGPS employers increased by 2,635 (22%) to 14,435.
- Assets held by LGPS Funds totalled £217billion (a change of 0.0%). These assets were invested in pooled investment vehicles (43.6%), public equities (34.6%), fixed interest/index linked (7.5%), property (7.8%), as well as other asset classes (1.0%).
- The Local Authority net return on investment over 2015/2016 was 0.1%. This was reflective of the difficult market conditions during the year and set against the FTSE All Share Total Return of -3.9%.
- The scheme maintained a positive cash flow position overall. Scheme income was lower than total scheme outgoings by £279m; this was excluding investment income.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
- Over 1.5m pensioners were paid over the year. Fewer than 91 formal complaints about scheme benefit administration were determined and less than 15% were upheld by the Pensions Ombudsman. Overall the LGPS has had relatively few upheld complaints.

3.4 In comparison, WMPF's (Main Fund) highlights for 2016 show

- The total membership grew from 277,558 to 287,874 (3.5%)
- Employers increased from 473 to 536 (11.7%)
- The Fund's total asset value increased from £11.5 billion to £11.6 billion . As at 31 March 2016 these assets were allocated in the following manner
    - Quoted equities: 49%
    - Private equity: 11%
    - Fixed interest/cash: 23%
    - Alternative investments: 17%
- The Fund's net return on investment totalled 7%
- The Fund maintained a positive cash flow position in 2015/16 (receiving more in contributions than it spent on pension benefits), with net income for the year totalling £4.8 million (excluding transfers to/from the Fund and investment income).
- With the number of pensioners being paid totalling 85,558 (WMPF)
- Throughout 2015/16 the fund received 330 complaints (0.11% of total membership).

3.5 This shows an overall similar and positive position of WMPF compared to the national average and showcases the Fund as being a top performer in the LPGS, meeting its objective in the 2017/2022 service plan.

4.0 Scheme Advisory Board Key Performance Indicators

4.1 In 2015 the Fund took part in a pilot scheme by the Scheme Advisory Board to produce a set of KPI's for LGPS funds, requesting to provide evidence and comments to support our scoring.

4.2 The KPI document has been circulated for update in line with 2016/17 targets. This was required to be submitted to the Scheme Advisory Board by 31 May 2017. SAB have stated that the responses will be analysed throughout July 2017 and feedback will be provided to the funds. Once feedback has been presented to Funds the SAB team will be working with GAD (Government Actuaries Department) and DCLG (Department for Communities and Local Government) to provide support and assist Funds accordingly.

4.3 Outcomes from the 2017 KPI's.

a) The fund has more than 3 risks identified as "high" on its risk register.
Through the Fund's proactive approach to risk management, existing and emerging risks are captured and routinely reviewed through the risk register which outlines the assessment and controls in place for each identified risk, as noted in the compliance report.

b) Benchmarking historic investment returns.
Independent benchmarking consultants CEM Benchmarking adjust the costs of global pension funds to reflect asset allocation and their data shows that on a like for like basis, WMPF costs are almost 20% cheaper than the average fund. A number of Funds are

continuing to sign up to this benchmarking platform to expand the global comparison. Due to the closure of the WM50 LGPS Benchmarking platform the Fund does not currently benchmark it's performance against its peers, however work is underway by the industry to replace this and with the introduction of pooling, we expect the Fund to improve it's scoring in this area over the course of the year.

c) Scheme Membership Data
The Fund has in place a data management program, incorporating greater employer liaison and dedicated section of the pension administration team, to address issues early ensure the cleanliness and accuracy of its data.

d) Pension queries, pension payments, annual benefit statements and Quality Assurance
The Fund does not hold a certification or crystal mark for plain English publications, however it has held for a number of years the accreditation for Customer Excellence Service which includes a review of the information we present to our Customers.

e) Complaints upheld by the Ombudsman
In the last 3 years the Fund has had 4 Internal Dispute Resolution complaints partially upheld by the Ombudsman 2, Stage one Fund decision and 2 Stage 2 employer decision.

4.4 Cost Transparency
The move toward investment fee transparency and consistency is seen by the SAB as an important factor in the LGPS being perceived as a value led and innovative scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and included in the government's criteria for pooling investments.

4.5 WMPF is recognised within the industry as a "front runner" in promoting transparency in the reporting of investment management costs, voluntarily embracing and disclosing deeper layers of costs and working with CIPFA and the National LGPS Scheme Advisory Board to develop a code of transparency for asset managers.

4.6 On a like for like basis, compared to 2012/13 the total investment costs for WMPF are (over 2016/17) £58 million per year lower. This has been achieved through re-shaping the portfolio to focus on value added and without compromising risk and return opportunities.

4.7 Academisation
As part of its workplan for 2016/17 the SAB set about investigating the issues around Academisation of local authority schools and what it would mean for the LGPS and their host authorities. As part of this work, the SAB commissioned PWC to produce a report on the options for Academies.

4.8 The report was published on 31 May and its publication will enable the SAB to engage with key stakeholders including pension funds, actuarial firms and academy trusts as appropriate on the issues raised by those interviewed by PWC. The Board will continue to gather relevant evidence and then develop specific proposals for change before submitting its recommendations to Ministers for their consideration.

5.0 Updates from the Pensions Regulator

5.1 TPR Key Risks

The Pensions Regulator has published their risk landscape for the 2017-2020 as part of their Corporate Plan. The plan details 5 areas of risk and what focus the TPR will have during the upcoming months and years.

Disorderly scheme failures

As part of the Pension Schemes Bill, there will be reforms in the market to help underpin the consumer confidence of multi-employer pension schemes. This will potentially encompass a more concentrated look into how Fund's administer a high number of employers and ensure the impact of failing employers does not fall onto other participating employers' interests.

WMPF has an employer covenant monitoring program in place to assess the strength and potential weakness of our employers, and where necessary, guarantees are obtained to protect the wider employer group.

Poor data integrity and security

The TPR will be focusing on the quality of record keeping by both public and private sector funds for the foreseeable future. This is due to the increase in data security incidents reported in the market and the rise in reliance on electronic working and data transfers.

The Fund has in place a data improvement plan which seeks to address issues of data quality both in terms of those received from employers and historical data held by the Fund. The Fund also has in place a work programme for the implementation of the General Data Protection Regulation (GDPR) Project due May 2018.

Economic and market outlook

The regulator will be paying particular focus to the economic and market outlook of funds due to the ever changing financial environment, for example, the upcoming Brexit deals and changing political conditions in the UK and overseas which all can have a potential impact on the markets and our economies.

The Fund in discussion with its advisors has in place an appropriate investment strategy with regular reporting and training delivered to Trustees on key issues which might affect the investments of the Fund.

Poor standards of stewardship

The TPR have been focusing on the governance and administration of pension funds closely since the inception of the Code of Practice and will continue their research and reviews until a high standard is achieved across the board. The TPR will not only be reviewing the governance and administration arrangements but also the employer and member expectations of providing our services.

The Fund is constantly reviewing and assessing its adherence to governance and administration requirements under the TPR Code of Practice and has in place a compliance monitoring program aligned specifically to the Code of Practice.

Sub-scale schemes

The TPR will be paying close attention to both sub-scale DB and DC scheme in the small and medium enterprise markets due to risks surround poor performance and outcomes. This does not pose any issues or direct impact on the Fund and its administration.

5.2 TPR guidance on Defined Benefit (DB) schemes
In March 2017, the TPR issued new guidance on the legal duty of Trustees of Defined Benefit Schemes aimed at providing practical information and example approaches to decisions which may arise when investing scheme assets.

The guidance requires Trustees to

- Have a basic understanding of the legal principles around pension scheme investment
- Work with investment advisors to obtain relevant investment advice
- Collaborate with scheme employers when writing the Investment Strategy Statement (ISS)

Recently the Fund undertook to translate our Statement of Investment Principles to the new Investment Strategy Statement (ISS) and undertook consultation with relevant stakeholders, including the Trade Unions through the committee representatives. While the production of the ISS is outside the remit of our stakeholders' role it is helpful for them to understand the process undertaken.

The guidance also included guidance on certain responsible investment issues, including (a) the integration of financially material ESG (environmental, social and governance) investment factors and (b) stewardship (including voting and engagement). Signalling the importance of climate change as an investment risk, TPR used climate change as its example both for investment beliefs and for how LGPS might consider financially material ESG factors. The Fund reviewed its Responsible Investment (RI) policies following publication of the guidance and reported to committee that its existing RI approach is already compliant. On climate change specifically, the Fund's existing approach goes beyond the regulatory minimum on climate change risk and together with partner groups such as Institutional Investors Group on Climate Change, the Transition Pathway Initiative, LAPFF and the PRI, the Fund may point to a number of successful examples of influencing positive change.

6.0 Financial implications

6.1 Failure by the Fund to adhere to statutory guidance and oversight may subject the Fund to potential fines and sanctions imposed by the SAB and tPR.

7.0 Legal implications

7.1 The Fund is required to ensure its compliance with statutory guidance and codes of practice. Failure to adequately ensure compliance may subject the Fund to formal action from either the SAB or tPR.

8.0 Equalities implications

8.1 There are no implications

9.0 Environmental implications

9.1 There are no implications

10.0 Human resources implications

10.1 There are no implications

11.0 Corporate landlord implications

11.1 There are no implications

12.0 Schedule of background papers

12.1 Scheme Advisory Board workplan and updates
http://www.lgpsboard.org/index.php/structure-reform

12.2 tPR guidance and updates
http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx