



Local Pension Board

Date Monday 11 October 2021
Time 2.00 pm
Venue Council Chamber, County Hall, Durham

Business

Part A

Items which are open to the Public and Press

Abbreviations

1. Apologies for Absence
2. Declarations of Interest (if any)
3. The Minutes of the Meeting held on 26 July 2021 (Pages 23 - 26)
4. Observations from Pension Fund Committee held on 11 October 2021
5. Regulatory Update (Pages 27 - 48)
6. Pension Administration Report (Pages 49 - 54)
7. Membership of Local Pension Board - Verbal Update
8. Border to Coast Pensions Partnership Joint Committee Membership - Verbal Update
9. Annual Report and Accounts - Verbal Update
10. Date of Next Meeting
11. Any Other Business

Helen Lynch
Head of Legal and Democratic Services

County Hall
Durham
1 October 2021

To: **The Members of the Local Pension Board**

Scheme Employer Representatives:
Councillor A Hopgood

Scheme Member Representatives
N Hancock and L Oliver

Contact: Jill Errington

Tel: 03000 269703

Pension Fund Committee



Abbreviations

List of commonly used abbreviations

AB	Alliance Bernstein, the Fund's Bonds manager
ACS	Authorised Contractual Scheme, the collective investment scheme used by BCPP for asset pooling
AUM	Assets Under Management
BCPP	Border to Coast Pensions Partnership, the Fund's asset pool
CBRE	Coldwell Banker Richard Ellis, the Fund's Real Estate manager
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
COO	Chief Operating Officer
COP	Conference of Parties, a UN conference on climate change
CPI	Consumer Price Index
CSR	Corporate Social Responsibility, a term under which companies report their social, environmental and ethical performance
DAA	Dynamic Asset Allocation
DGF	Diversified Growth Fund

EM	Emerging Markets
EMEA	Europe, Middle East & Africa
ESG	Environmental, Social, and Governance – factors in assessing an investment’s sustainability
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTA	FTSE Actuaries UK Gilts Index Series
FTSE	Financial Times Stock Exchange
GEM	Global Emerging Markets
GRESB	Global ESG Benchmark for Real Assets
HMT	Her Majesty’s Treasury
Infra	Infrastructure
IRR	Internal Rate of Return
ISS	Investment Strategy Statement
JC	Joint Committee
LGA	Local Government Association
LGPS	Local Government Pension Scheme
LAPFF	Local Authority Pension Fund Forum
LIBOR	London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another
LPB	Local Pension Board
MAC	Multi Asset Credit
MHCLG	Ministry of Housing, Communities and Local Government
MSCI	formerly Morgan Stanley Capital International, publisher of global indexes

NED	Non-Executive Director
NT	Northern Trust, the Fund's Custodian
OECD	Organisation for Economic Co-operation and Development
PF	Pension Fund
PFC	Pension Fund Committee
PLSA	Pensions and Lifetime Savings Association
PRI	The UN-supported Principles for RI
RI	Responsible Investment
RPI	Retail Price Index
S&P	Standard & Poor's, ratings agency and provider of equity indices
S151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board
SDG	the UN's Sustainable Development Goals
SILB	Sterling Index Linked Bonds
SONIA	Sterling Over Night Index Average, the overnight interest rate paid by banks
TCFD	Taskforce on Climate Related Financial Disclosures
TER	Total Expense Ratio
TPR	The Pensions Regulator

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Glossary of commonly used terms

A

Active Management

Appointing investment professionals to track the performance of the Fund's mandates, making buy, hold and sell decisions about the assets with a view to outperforming the market.

Active Member

A current employee who is contributing to the pension scheme.

Actuary

An independent professional who advises the Council in its capacity as Administering Authority on the financial position of the Fund.

Actuarial Valuation

The Fund's actuary carries out a valuation every three years and recommends an appropriate rate of contributions for each of the Fund's participating employers for the following three years. The valuation measures the Fund's assets and liabilities, with contribution rates set according to the Fund's deficit or surplus.

Additional Voluntary Contributions (AVCs)

An option available to active members to build up a pot of money which is then used to provide additional pension benefits. The money is invested separately with one of the Fund's external AVC providers.

Administering Authority

The LGPS is run by local Administering Authorities. An Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

Admission/Admitted Body

An organisation whose employees can become members of the Fund by virtue of an admission agreement made between the council in its capacity as Administering Authority and the organisation. It enables contractors who take on council services to offer staff transferred to the organisation continued membership of the LGPS.

Asset Allocation

The apportionment of the Fund's assets between different types of investment (or asset classes). The long-term strategic asset allocation of the Fund will reflect the Fund's investment objectives and is set out in the Investment Strategy Statement.

Authorised Contractual Scheme (ACS)

A collective investment scheme used by BCPP. An ACS is a form of investment fund that enables a number of investors to 'pool' their assets and invest in a professionally managed portfolio of investments, typically gilts, bonds, and quoted equities. Regulated by the Financial Conduct Authority, it is "tax transparent"; making it particularly useful for pooling pension assets.

B

Benchmark

A measure against which the investment policy or performance of an investment manager can be compared.

Border to Coast Pension Partnership (BCPP)

The Fund's chosen asset pool. BCPP has 11 Partner Funds who collectively have around £45bn of assets. The Partner Funds have appointed a Board of Directors, chaired by Chris Hitchen, which is responsible for ensuring that Border to Coast is run effectively and in line with the guiding principles set by the shareholders. The Chief Executive Officer, Rachel Elwell, is responsible for the day to day running of Border to Coast along with her team.

Border to Coast Joint Committee

As part of their oversight, BCPP Partner Funds formed a Joint Committee which consists of the Chairs of each of the Partner Fund Pension Committees together with other non-voting representatives.

C

CARE (Career Average Revalued Earnings)

From 1 April, 2014, the LGPS changed from a final salary scheme to a Career Average (CARE) scheme. The LGPS remains a defined benefit scheme but benefits built up from 2014 are now worked out using a member's pay each scheme year rather than the final salary at leaving.

Cash Equivalent Value (CEV)

This is the cash value of a member's pensions rights for the purposes of divorce or dissolution of a civil partnership.

Consumer Price Index (CPI)

A method of measuring the changes in the cost of living, similar to the Retail Price Index. Since April 2011 LGPS pensions are increased annually in line with movement in the Consumer Price Index during the 12 months to the previous September.

Commutation

A scheme member may give up part or all of the pension payable from retirement in exchange for an immediate lump sum.

Convertible Shares

Shares that include an option for holders to convert into a predetermined number of ordinary shares, usually after a set date.

Custodian

A financial institution that holds customers' securities for safekeeping to minimise the risk of theft or loss. Most custodians also offer account administration, transaction settlements, collection of dividends and interest payments, tax support and foreign exchange. Custody is currently provided to the Fund by Northern Trust.

D

Death Grant

A lump sum paid by the Fund to the dependents or nominated representatives of a member who dies.

Deferred Member/Pensioner

A scheme member who has left employment or otherwise ceased to be an active member of the scheme who retains an entitlement to a pension from the Fund.

Defined Benefit Scheme

A pension scheme like the LGPS where the benefits that will ultimately be paid to the employee are fixed in advance and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the future pension promise.

Denomination

The face value of a bank note, coin or postage stamp, as well as bonds and other fixed-income investments. Denomination can also be the base currency in a transaction or the currency a financial asset is quoted in.

Designating Body

Organisations that can designate employees for access to the LGPS. Employees of town and parish councils, voluntary schools, foundation schools, foundation special schools, among others, can be designated for membership of the scheme.

Discretion

The power given by the LGPS to enable a participating employer or Administering Authority to choose how they will apply the scheme in respect of several its provisions. For some of these discretions it is mandatory to pass resolutions to form a policy as to how the provision will apply. For the remaining discretionary provisions, a policy is advised.

Direct Property

Direct investment in property is buying all or part of a physical property. Property owners can receive rent directly from tenants and realise gains or losses from the sale of the property.

Diversified Growth Funds (DGF)

An alternative way of investing in shares, bonds, property and other asset classes; DGFs are funds that invest in a wide variety of asset classes in

order to deliver a real return over the medium to long-term. The Fund's DGF is managed by BlackRock.

E

Employer Contribution Rates

The percentage of an employee's salary participating employers pay as a contribution towards that employee's LGPS pension.

Employer Covenant

The covenant is an employer's legal obligation and financial ability to support their defined benefit (DB) obligation now and in the future.

Equities

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

ESG

ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing an investment's sustainability

F

Fiduciary Duty

Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

Financial Instruments

Tradable assets of any kind, which can be cash, evidence of an ownership interest in an entity or a contractual right to receive or deliver cash or another financial instrument.

Fixed Interest Securities

Investments, mainly in Government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date that can be traded on a recognised stock exchange in the meantime.

Fund of Funds (FoF)

A fund that holds a portfolio of other investment funds.

G

Guaranteed Minimum Pension (GMP)

The LGPS guarantees to pay a pension that is at least as high as a member would have earned had they not been contracted out of the State Earning Related Pension Scheme (SERPS) at any time between 6 April 1978 and 5 April 1997. This is called the guaranteed minimum pension (GMP).

I

Index

A calculation of the average price of shares, bonds or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Internal Rates of Return (IRR)

The internal rate of return (IRR) is a metric used to estimate the profitability of potential investments. Generally, the higher an IRR, the more desirable an investment is to undertake.

L

Local Government Pension Scheme (LGPS)

The LGPS is collectively the largest public sector pension scheme in the UK, which provides DB benefits to employees of local government employers and other organisations that have chosen to participate.

Local Pension Board (LBP)

Since April 2015, each Administering Authority is required to establish and operate a Local Pension Board. The Pension Board is responsible for assisting the Administering Authority in securing compliance with the LGPS regulations, overriding legislation and guidance from the Pensions Regulator. The Board is made up of equal representation from employer and scheme member representatives.

M

Myners Principles

A set of principles based on Paul Myners' 2001 report, Institutional Investment in the United Kingdom. The Myners' principles for defined benefit schemes cover:

Effective decision-making

Clear objectives

Risk liabilities

Performance assessment

Responsible ownership

Transparency and reporting.

O

Ordinary Shares

An ordinary share represents equity ownership in a company and entitles the owner to vote at the general meetings of that company and receive dividends on those shares if a dividend is payable.

P

Partner Funds

The Fund's chosen asset pool, BCPP, has 11 Partner Funds - Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear, Warwickshire.

Pension Liberation Fraud

Members with deferred benefits may be approached by companies offering to release funds early from these benefits. The Pensions Regulator has advised pension funds to make members aware of the potential warning signs of pension liberation fraud.

Pensions Online

The Fund's online portal where scheme members may view their pensions records, complete retirement calculations, and update personal details.

Pensions Regulator

The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. TPR make sure that employers put their staff into a pension

scheme and pay money into it. TPR also make sure that workplace pension schemes are run properly so that people can save safely for their later years.

Pooled Funds

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Pooling in the LGPS

Central government requires local authorities to pool their pension assets, to achieve four principles:

1. Cost savings through economies of scale
2. Improved governance
3. Improved approach to responsible investment
4. Improved ability to invest in infrastructure

Proxy Voting

Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

Q

Quantitative Easing

Quantitative easing (QE) is when a central bank creates new money electronically to buy financial assets like Government bonds with the aim of directly increasing private sector spending in the economy and returning inflation to target.

R

Related Party Transactions

This is an arrangement between two parties joined by a special relationship before a deal, like a business transaction between a major shareholder and a corporation.

Responsible Investment (RI)

Responsible investment involves incorporating environmental, social and governance (ESG) considerations into investment decision-making while practising active ownership. RI can help deliver sustainable, long-term returns for investors.

Retail Price Index

A method of measuring the changes in the cost of living. It reflects the movement of prices covering goods and services over time. Until April 2011, the amount by which LGPS pensions were increased annually was based on movement in the Retail Price Index during the 12 months to the previous September. From April 2011, the Government changed the amount by which pensions increase from Retail Price Index to Consumer Price Index (CPI).

Return

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

Rule of 85

Under previous LGPS regulations, when a member elected to retire before age 65, the Rule of 85 test was used to find out whether the member retired on full or reduced pension benefits. If the sum of the member's age and the number of whole years of their scheme membership was 85 or more, benefits were paid in full. If the total was less than 85, the benefits were reduced. The Rule of 85 was abolished on 1 October, 2006 - however, members contributing to the LGPS prior to this date will have some or all of their pension benefits protected under this rule.

S

Scheduled Body

An organisation that has the right to become a member of the LGPS under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

Spot Rate

The price quoted for immediate settlement on a commodity, security or currency. It is based on the value of an asset at the moment of the quote, which in turn is based on how much buyers are willing to pay and how much sellers are willing to accept depending on factors such as current market value and expected future market value.

State Pension Age (SPA)

The earliest age at which State Pension can be paid, which different to the earliest age LGPS may be claimed. Under the current law, the State Pension age is due to increase to 68.

Stock Lending

This is loaning a stock, derivative or other security to an investor or firm. It requires the borrower to put up collateral (cash, security or a letter of credit). When stock is loaned, the title and the ownership is transferred to the borrower and title is returned at the end of the loan period.

T

TCFD

The Taskforce on Climate Related Financial Disclosures was set up to develop voluntary, consistent, climate related financial risk disclosures to guide companies in providing information to investors, lenders, insurers and other stakeholders. It is expected that MHCLG will consult on mandatory TCFD disclosures in the LGPS by the end of 2021.

The Pension Advisory Service (TPAS)

The Pensions Advisory Service (TPAS) gives information and guidance to members of the public on state, company and personal pensions. It helps any member of the public who has a problem with their occupational or private pension arrangement. TPAS is an executive non-departmental public body, sponsored by the Department for Work and Pensions.

Transfer Value

A transfer value is a cash sum representing the value of a member's pension rights.

Transferred Service

Any pension that members have transferred into the LGPS from a previous pension arrangement that now counts towards their LGPS membership.

U

UK Stewardship Code

A code first published by the FRC in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active and engaged in corporate governance matters in the interests of their beneficiaries. The Code was revised in 2020.

Unrealised gains/losses

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

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DURHAM COUNTY COUNCIL

At a Meeting of **Local Pension Board** held in Council Chamber, County Hall, Durham on **Monday 26 July 2021 at 2.00 pm**

Present:

Councillor A Hopgood in the Chair

Scheme Member Representatives:

Mr N Hancock and Mr L Oliver

1 Apologies for Absence

There were no apologies for absence.

2 Declarations of Interest (if any)

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 11 March 2021 were agreed as a correct record and were signed by the Chair.

4 Observations from Pension Fund Committee held on 26 July 2021

Local Pension Board Member Neville Hancock was in attendance at the Pension Fund Committee and had no particular observations to make. He noted that the first meeting of the new Committee had largely been an information sharing meeting. It was also noted that appropriate training had been provided by the Fund for new Members.

Paul Cooper added that the Committee had also received external training aligned with CIPFA's knowledge and skills framework.

RESOLVED:

That the information given be noted.

5 Regulatory and Administration Update

The Board considered a report from the Interim Corporate Director of Resources which provided details on developments in matters that were both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters of interest (for copy see file of Minutes).

Referring to the minimum pension age Councillor Hopgood suggested that a caveat was used to ensure that members knew it would always be 10 years below the state retirement age.

RESOLVED:

That the report be noted.

6 Pension Administration Report

The Board considered a report from the Interim Corporate Director of Resources regarding the Fund's pension administration and service provision to members, as well as providing an update on Key Performance information (for copy see file of Minutes).

Paul Cooper advised of the performance in the first quarter of 2021 with 227 retirement cases, 237 early leavers, 3,405 telephone calls to the Fund's Helpline and 13,934 members had registered for the Fund's Pensions Online portal.

With regards to targets Councillor Hopgood asked that as some delays were due to the Scheme Employer and therefore out of the Fund's direct control, we should look to set a more realistic target, rather than expecting to reach 100%. It was suggested that this should be assessed once a year's data was known.

Neville Hancock enquired about ill health retirements where scheme members were waiting for an official decision from the council in its capacity as Scheme Employer where it had received a report from the independent doctor. Paul Cooper explained that the scheme member must consent to allow access to the independent doctor's report to the ill health Panel, which met monthly. A letter was sent to each applicant after the Panel and they were able to appeal the outcome.

RESOLVED:

That the report be noted.

7 Pensions Regulator Code of Practice - verbal update

Paul Cooper advised that the each of the codes of practice were being consolidated into one single code. This singular modular online code across the Pension Scheme would impact the work of the board and training would be provided including a revision to the work programme.

Members of the Board would receive a full brief and would adhere to the current work programme until the revisions were received.

RESOLVED:

That the update be noted.

8 Membership of Board - verbal update

Paul Cooper advised that the membership consisted of three scheme member representatives and three scheme employer representatives.

Ian Densham had stood down and therefore an advert for scheme member representatives would be published. A feedback report would be provided to the chair and the board.

Councillor Hopgood advised of Councillor Tinsley's resignation and that there would be a replacement appointed for the next meeting. She asked that a letter of thanks be sent to Ian Densham for his time and commitment to the board. He had been a great contributor and attendee and she wished him well for the future.

RESOLVED:

That the update be noted.

9 Border to Coast Pensions Partnership Joint Committee Membership - verbal update

Paul Cooper advised that the seat on the joint committee was held by the Chair of the Pension Fund Committee, and that there was a vacancy for a scheme member representative. Once nominees were known this would be shared with scheme member representatives.

RESOLVED:

That the update be noted.

10 Date of Next Meeting

The next meeting would be held on 16 September 2021 at 2.00 p.m.

11 Any Other Business

Neville Hancock asked about the engagement activity of Border to Coast Pensions Partnership and when engagement reaches its limit. Paul Cooper explained that if a company with whom BCPP had engaged did not change their behaviours, the investment rationale would be considered. BCPP then chose whether to dial down the holding, in order to retain the shares allowing continued engagement; or

ultimately whether the investment case had been weakened sufficiently that it was necessary to divest.

Local Pension Board

11 October 2021

Regulatory Update



Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

- 1 This report briefs the Board on developments in matters that are both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters which are of interest.

Executive summary

- 2 There are a number of developments that will potentially impact the requirements placed upon the Fund, both specific to the LGPS and more generally. This report seeks to keep the Board updated with those developments

Recommendation(s)

- 3 The Local Pension Board is asked to note the report.

Background

- 4 This report provides an update to the Board on important pensions administration and governance matters that are currently relevant. The report is split into 2 main sections:
 - (a) LGPS specific matters, and;
 - (b) Non-LGPS specific matters that are of interest to the Board.

LGPS Specific Matters

DLUHC Consultation – LGPS: Fair Deal – Strengthening Pension Protection

- 5 In January 2019, The Department for Levelling Up Housing and Communities (DLUHC), formerly MHCLG, launched a consultation that would strengthen the pensions protections that apply when an employee of an LGPS employer is compulsorily transferred to the employment of a service provider. If the proposed amendments are introduced, the option for staff to be granted access to a Government Actuary's Department (GAD) certified broadly comparable scheme will be removed.
- 6 DLUHC are currently considering the responses received, with a consultation response expected in due course. Officers will continue to monitor the position.

DLUHC consultation – LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk

- 7 In May 2019 DLUHC consulted on a number of changes to the LGPS, encompassing the following areas:
 - amendments to the local fund valuations from the current 3-year (triennial) to a 4-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

- 8 On 27 February DLUHC published a partial response to the consultation, covering proposals on exit credits only. DLUHC confirmed their intention to amend the Regulations providing greater discretion to Administering Authorities over the amount of any exit credit. The Local Government Pension Scheme (Amendment) Regulations 2020 were subsequently laid before parliament, coming into force on 20 March 2020 with backdated effect to 18 May 2018. The Fund has published its policy in relation to Exit Credits, which will be reviewed in light of a recent High Court judgement that provided further direction to LGPS Funds.
- 9 DLUHC has also published a partial response in respect of employer contributions and flexibility on exit payments. Officers will work with the Fund's Actuary to expand the Fund's existing employer 'Exits' policy after appropriate consultation with Scheme Employers. The Pension Fund Committee will be consulted before any update to the policy is adopted.

Ongoing Consultation – Guaranteed Minimum Pensions (GMP)

- 10 In February 2017 the Treasury consulted on options for how the Guaranteed Minimum Pension (GMP) element of pensions paid to those members who will reach state pension age on or after 6th December 2018 should be indexed.
- 11 In January 2018 the Treasury published its response to this consultation, acknowledging that it is a complex area with more time required to identify a long-term solution. As a result, the existing interim solution was extended, covering those members of public service schemes reaching state pension age between 6th April 2016 and 5th December 2018 to those that reach state pension age on or before 5th April 2021.
- 12 On 23 March 2021 Her Majesty's Treasury (HMT) discounted conversion (of GMP into main scheme benefits) as their long-term policy solution and instead will make full GMP indexation the permanent solution for public service pension schemes. Currently members covered by the interim solution have their GMP pensions fully uprated by their scheme in line with CPI. The new policy will extend this to members whose State Pension Age (SPA) is on or after 6 April 2021.
- 13 The Fund's Actuary will provide further detail at the Fund's Annual Meeting in November. In particular, the Actuary will outline the Funding implications of HMT's decision.

LGPS Scheme Advisory Board (SAB)

SAB Review – Academies

- 14 In 2017 SAB instigated a review of the participation of existing academies and commissioned Price Waterhouse Coopers to investigate issues of academy participation in the LGPS and prepare a report for the Board. The report made no recommendations but set out three broad types of approach or mechanisms to try and resolve these issues. These are:
- non-regulatory measures within the LGPS
 - regulatory measures within the scheme, and
 - measures outside of the LGPS, including through primary legislation.
- 15 The SAB review had been split between a funding working group and an administration working group. Work on the administration working group was put on hold due to competing work pressures and the project is no longer part of SAB's current projects.

SAB Review – Tier 3 Employers

- 16 In addition to the review of Academy participation, above, SAB also commissioned work in respect of 'Tier 3' employers participating in the LGPS. Broadly, Tier 3 employers are those employers which:
- (i) have no tax raising powers,
 - (ii) are not backed by an employer with tax raising powers;
 - (iii) are not an academy.
- 17 SAB had established a small working group to review concerns expressed by Tier 3 employers and the ways in which they may be resolved. The working group had been tasked with reporting back to the SAB with a set of recommendations for further consideration.
- 18 The project is no longer part of SAB's current projects. Officers will continue to monitor the position.

SAB Review – Good Governance in the LGPS

- 19 SAB is currently examining the effectiveness of current LGPS governance models with a focus on standards, consistency, representation, conflict management, clarity of roles and cost. The Board will consider a detailed paper in May 2020 which will likely result in new statutory guidance on Governance Compliance, with consideration in particular likely to be given to:

- (a) changes to the scheme’s regulatory provisions on Governance Compliance Statements,
 - (b) revised statutory guidance on Governance Compliance Statements,
 - (c) independent assessment of Governance Compliance Statements, and;
 - (d) establishing a set of Key Performance Indicators (KPIs)
- 20 SAB have recently completed their report on Good Governance and submitted an Action Plan to DLUHC to take the recommendations of the project forward. A more detailed update to the Pension Fund Committee, and overview of the recommendations proposed to DLUHC will be provided in due course.

SAB Review – Responsible Investment Guidance

- 21 In November 2019, SAB drafted guidance for Responsible Investment in the LGPS, to clarify the parameters within which investment decisions can be made with regard to the integration of ESG factors. Following feedback, SAB has decided to take stock until more is known about the government’s position on the proposed climate change provisions in the Pension Schemes Bill and the implications of the Supreme Court’s judgement involving the Palestine Solidarity Campaign.
- 22 Notwithstanding this decision, SAB have progressed with further work in respect of Responsible Investment (RI), including the production of an RI A-Z Guide. It is intended that the A-Z Guide will provide LGPS stakeholders a “one stop shop for information, links and case studies in this fast growing and complex arena”. The guide will evolve over time, as new entries are added. The A-Z Guide can be found online at the following link <https://ri.lgpsboard.org/items>.
- 23 The Board has also established an RI Advisory Group (RIAG). The main role of the group will be to advise SAB on all matters relating to RI. It will also be responsible for assisting the Board in maintaining the online A-Z Guide. The Group will also assist SAB in developing recommendations to DLUHC on how TCFD reporting should be applied to the LGPS.

Cost Control Mechanism/McCloud

- 24 The Cost Control Mechanism in the LGPS and other public sector schemes sets both a cost ‘ceiling’ and ‘floor’ in respect of the ongoing affordability of public sector pensions. This creates a “cost corridor”

designed to keep schemes within 2% of target costs. It had not previously been possible to assess the value of the public service pensions arrangements with any certainty due to the anticipated implications of the Court of Appeal judgements in McCloud and Sargeant.

- 25 The Fund's position on McCloud has been discussed previously, with the Actuary outlining in detail how the issue was to be reflected in the 2019. The approach taken added an additional 0.9% to the employer contribution rate for all employers at the 2019 valuation.
- 26 Before the impact of McCloud, provisional cost management assessments indicated floor breaches in most schemes, that may have resulted in an improvement to benefits or reduction in member contributions. At the request of HMT, GAD carried out a review of the Cost Control Mechanism across the public sector.
- 27 Following GAD's review, HMT are consulting on reforms to the cost control mechanism intended to "establish a fairer balance of risks between taxpayers and scheme members, and create a more stable mechanism". The proposed reforms would operate only in the reformed public sector schemes, would widen the existing cost corridor from 2% to 3%, and would introduce an "economic check" where there is a cost breach to ensure that broader economic conditions are considered.
- 28 Additionally, there are proposed changes to the discount rate used to determine contribution rates in the unfunded public sector schemes. This discount rate, however, is used in the production of actuarial factors in the LGPS.

Non- LGPS Specific Matters

Public Sector Exit Payments Caps

- 29 The Small Business, Enterprise and Employment Act 2015 introduced the concept of a 'public sector exit payments cap'. The legislation provides that exit payments to be paid to a person are not to exceed £95,000. The 2015 Act provided the overarching principles of how the exit cap was to operate, but the detail was to be prescribed in regulations that were expected to soon follow.
- 30 After a period of delay the Treasury launched a new consultation on this matter in April 2019. Included in the consultation were draft regulations called 'The Restriction of Public Sector Exit Payment

Regulations 2019' which provided detail on how the exit cap should operate from an employer's perspective.

- 31 Under the Regulations, the cap was to remain at £95,000 and include:
- redundancy payment(s);
 - any payment to offset an actuarial reduction to a pension arising by virtue of early retirement (known as 'strain on the fund' or 'early release' cost);
 - any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement;
 - any severance payment or ex gratia payment;
 - any payment in the form of shares or share options;
 - any payment on voluntary exit;
 - any payment in lieu of notice due under a contract of employment;
 - any payment made to extinguish any liability under a fixed term contract;
 - any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment or loss of office.
- 32 Most significantly for the LGPS, was the inclusion of the 'strain on the fund' costs are included towards the cap. These costs of allowing unreduced access to pension benefits for members over 55 can exceed £95,000 for scheme members with long periods of membership.
- 33 Separately to the Exit Payment Regulations, DLUHC consulted on further reforms to the LGPS Regulations that would accommodate the Exit Cap within the Scheme. As DLUHC's proposed changes were not implemented concurrently with the Exit Payment Regulations, there was legal uncertainty for both LGPS Administering Authorities and participating employers due to the conflicting legislation.
- 34 On 12 February however the Exit Cap was unexpectedly disapplied, after the Treasury issued the 'Exit Payment Cap Directions 2021'. The Treasury will bring forward at pace revised proposals in respect

of public sector exits. The Board will be updated as further details emerge.

Mandatory TCFD Reporting

- 35 Using powers granted under the Pension Schemes Bill, the Department for Works and Pensions (DWP) has consulted on draft regulations requiring occupational pension schemes to meet climate governance requirements, publish a Taskforce on Climate-related Financial Disclosures (TCFD) report and include a link to the report in their annual report and accounts.
- 36 Whilst the regulations will not apply to the LGPS it is expected that DLUHC will bring forward similar proposals requiring TCFD disclosures in the LGPS. At the time of writing, consultation on such requirements in the LGPS is expected in September.
- 37 The Fund's pooling partner, Border to Coast Pensions Partnership (BCPP) are supporters of the Task Force on Climate-related Financial Disclosures (TCFD) and have just published their second TCFD report aligned with the recommendations. This covers the approach to climate change across the four thematic areas of Governance, Strategy, Risk Management, and Metrics and Targets. The report demonstrates the improvements and developments made across the four key areas. The report can be found online at the following link <https://www.bordertocoast.org.uk/sustainability/>.
- 38 BCPP will support Partner Funds ahead of any mandatory reporting requirements through the Officers Operation Group RI workshops, delivering training, and by providing reporting. BCPP have held discussions to understand all Partner Funds' requirements on carbon reporting on assets, including those that are currently not held in the pool.
- 39 A BCPP procurement for carbon data, including forward-looking metrics (scenario analysis), taking place this year will take into account the reporting requirements of Partner Funds for equity and fixed income portfolios. Obtaining carbon data for Private Markets is more challenging and BCPP are looking into solutions for these portfolios held in the pool.
- 41 An overview of TCFD was included in training for members of the Pension Fund Committee in December. A more detailed report, and further training will be provided to the Committee on the details of DLUHC's anticipated consultation on TCFD, and the availability of data through BCPP.

UK Stewardship Code 2020

- 40 The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Fund has previously signed up the Code, and BCPP also publish a UK Stewardship Code compliance statement.
- 41 Due to the significant changes in the Investment Market since the introduction of the first Code, The UK Stewardship Code 2020 is now being introduced. This new Code expands on the previous requirements and comprises a set of 12 Principles which require reporting and disclosure on an 'apply and explain' basis.
- 42 The LGPS (Management and Investment of Funds) 2016 Regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed a Responsible Investment Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.
- 43 Officers are currently working with peers at BCPP Partner Funds to consider the new Code and will work together, and in conjunction with BCPP, to ensure compliance. A more detailed report will be provided to the Committee in due course.

Consultation on Minimum Pension Age

- 44 A consultation entitled 'Increasing the normal minimum pension age(NMPA) : consultation on implementation' was launched on 11th February and runs until 22nd April 2021. The consultation proposes that, due to increases in longevity and changing expectations of how long individuals will remain in work and in retirement, the minimum pension age would increase from 55 to 57 in 2028. When the policy was first announced, it was intended that the NMPA would be 10 years earlier than the State Pension Age. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.

TPR Code of Practice

- 45 The Pensions Regulator (TPR) has consulted on a single Code of Practice to cover all regulated schemes. Presently, the Regulator has a specific Code for Public Service Pensions. Whilst the new Code does not extend TPR's powers in the LGPS beyond its existing remit on governance and administration, there are some concerns over how the provisions of the Code fit with the LGPS. SAB have responded on behalf of the LGPS.
- 46 The Regulator plans to carry out a full review of the comments received through the consultation which it will consider carefully. TPR does not now expect to lay the new code before Parliament before Spring 2022 so it is unlikely that the Code will become effective before Summer 2022. It is therefore proposed that the Board's existing Workplan addressing the existing 'Public Service Pension Code of Practice' is rolled forward.
- 47 A copy of the rolled forward workplan and a summary of the Regulator's proposed Consolidated Code are included in Appendix 1 and 2.

Boycotts, Divestment and Sanctions Bill

- 48 The government's legislative programme was laid out in May. The programme includes a Boycotts, Divestment and Sanctions Bill the purpose of which will be to stop public bodies from taking a different approach to UK Government sanctions and foreign relations and will cover purchasing, procurement and investment decisions.

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Appendix 1: Local Pension Board Work Plan

Work Plan Rolled Forward:

Meeting	Topics to be considered	Comments
December 2021	<ul style="list-style-type: none"> The Pensions Regulator Code of Practice 	<ul style="list-style-type: none"> Consider gap analysis against Code of Practice
	<ul style="list-style-type: none"> Review Pension Fund Annual Report and Accounts 	
March 2022	<ul style="list-style-type: none"> Member and Employer Communications 	<ul style="list-style-type: none"> Review Standard communications and Communications Strategy
	<ul style="list-style-type: none"> Internal disputes cases & Pension Ombudsman cases 	<ul style="list-style-type: none"> Review and consider any lessons learned
June 2022	<ul style="list-style-type: none"> Review Performance Statistics - Review KPIs 	
	<ul style="list-style-type: none"> Review training approach 	<ul style="list-style-type: none"> Consider Board members, Committee members and Officers involved in scheme administration
September 2022	<ul style="list-style-type: none"> Assist in development and review of asset voting and engagement processes 	<ul style="list-style-type: none"> Consider compliance with UK Stewardship Code
December 2022	<ul style="list-style-type: none"> The Pensions Regulator Code of Practice 	<ul style="list-style-type: none"> Consider gap analysis against Code of Practice
	<ul style="list-style-type: none"> Review Pension Fund Annual Report and Accounts 	
March 2023	<ul style="list-style-type: none"> Member and Employer Communications 	<ul style="list-style-type: none"> Review Standard communications and Communications Strategy
	<ul style="list-style-type: none"> Internal disputes cases & Pension Ombudsman cases 	<ul style="list-style-type: none"> Review and consider any lessons learned

June 2023	<ul style="list-style-type: none"> • Review Performance Statistics - Review KPIs 	
	<ul style="list-style-type: none"> • Review final valuation report outcome 	
September 2023	<ul style="list-style-type: none"> • Employer and Administering Authority Discretions 	<ul style="list-style-type: none"> • Review approach and application
December 2023	<ul style="list-style-type: none"> • The Pensions Regulator Code of Practice 	<ul style="list-style-type: none"> • Consider gap analysis against Code of Practice
	<ul style="list-style-type: none"> • Review Pension Fund Annual Report and Accounts 	

Appendix 2: TPR Consolidated Code Proposals

Number	Module Title		Comments / Overview
<u>The Governing Body</u>			
TGB006	Meetings and Decision-making	NEW	In most cases meet at least quarterly. Written meeting records to be held with a list of required info to be noted. Establish a process for meetings e.g. set frequency, develop policy on how/when extraordinary meetings should be held, create process for rescheduling meetings, agree responsibilities for agenda setting etc. Retention of documentation surrounding decision making. Consider ways to publish additional information such as information requested by the governing body to encourage member engagement and promote transparency.
TGB016	Remuneration policy	Best Practice	Not needed by Public service schemes but could be adopted as best practice. Remuneration policy sets out levels and means for remunerating those undertaking activities in relation to the scheme paid for by the governing body

			and/or sponsoring employer. Need to establish policy and keep written record. Consider any outsourced service provider including actuarial, legal advisory and investment services.
TGB010	Managing advisers and service providers	NEW	Establish agreed and documented policies for making appointments to the scheme - review at least biannually. Consider tender processes. Consider degree of delegation. Review relevant frameworks for specialist functions if required. Carry out due diligence prior to appointments. Agree accountability and performance indicators, escalation points, process of recording decisions etc. Consider data protection legislation when sharing information. Be aware of obligations, professional conduct rules and whistleblowing requirements that may be placed on some advisers. Regularly assess performance against agreed KPIs and set objectives. Periodically review the market of service providers. Develop a process to ensure that improvements are made where poor service is identified. Plan effectively for replacing or transitioning to new service providers.

TGB033	Assurance of governance and Internal controls	Existing	New material on assurance - statutory external audit undertaken only provides assurance on financial elements but cannot provide assurance on member benefits for example. Adequate internal controls i.e Internal Audit will help with this.
TGB022	Continuity Planning	Best Practice	Best practice to have a BCP in place should there be a disruption to the activities of the scheme. Scheme should seek to ensure continuity and regularity in the performance of the scheme.
<u>Funding on investment</u>			
FAI001	Investment governance	BP	Not required in legislation but LGPS scheme managers should approach investment governance in the same way. Ensure scheme manager and those involved in investment decisions have required skills & knowledge. Appoint suitably qualified advisers. Produce statement of investment principles (FSS? ISS?) Document objectives, role and responsibilities of

			those involved in decision making. Assess investment performance at least quarterly. Ensure there is sufficient expertise to challenge any advice given. Formally consider performance of investment managers/advice providers triennially and act on any issues identified.
FAI005	Investment monitoring	BP	Not required in legislation but LGPS scheme managers should approach investment governance in the same way. Governing bodies should be confident that investment governance is carried out in accordance with legal obligations, with scheme members best interests in mind, and by people with the right expertise. Governing bodies should have procedures in place to monitor scheme investment and performance, and set expectations for investment managers.
<u>Administration</u>			
ADM001	Adminstration	NEW	Scheme managers are required under legislation to establish and operate internal controls which adequate to ensure the scheme is administered and

			<p>managed in accordance with the scheme regulations. Maintain sufficient scheme knowledge, understand administrator responsibilities. Include administration as a regular agenda item on meetings. Develop long term admin strategy. Maintain proper administration, monitor and reviewing reports and challenging where appropriate, have a BCP.</p>
ADM002	Financial Controls	NEW	<p>Scheme managers are required under legislation to establish and operate internal controls which adequate to ensure the scheme is administered and managed in accordance with the scheme regulations. Understand the procedures and controls the administrator operates to ensure that financial transactions are processed promptly and accurately. Annually review all processes and systems related to financial transactions and improve where necessary. Have expected SLAs in place and monitor performance against these. Ensure comms with employers is maintained so that necessary information is shared timely and accurately. Ensure that finance data is processed accurately so</p>

			that core transactions can be processed accurately.
ADM014	Transfers	NEW	Governing bodies should ensure that they have the necessary administrative procedures in place to deal with transfer requests without undue delay.
ADM003	Scheme Records	NEW	Maintain complete and accurate records. Establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed in accordance with scheme rules.
ADM006	Data Monitoring	NEW	Records must be maintained. Scheme managers should establish and operate internal controls securing this. Monitor data regularly, ensuring its complete and accurate. Ensure info is received regarding material errors. Plan for improving data where necessary and monitor this. Reconcile member records with info held by the employer. Reconcile scheme membership regularly. Assess the need for data review at least annually including

			common and scheme data. Ensure processes meet the requirements of data protection legislation. Understand obligations of data protection law.
ADM0015	Maintenance of IT systems	NEW	Maintain appropriate IT systems, which are reviewed and maintained regularly with processes for transmission of information. ICT systems should be able to meet scheme's need and legal requirements. Service providers should be able to demonstrate that they meet expectations of TPR. Ensure cyber security measures are in place. Record planned and executed changes to systems. Written policy on maintaining, upgrading and replacing hardware which should be able to meet the current and anticipated system requirements. Manage planned and future admin software updates.
ADM0016	Cyber controls	NEW	Governing bodies should take steps to reduce the risk of cyber incidents occurring and appropriately manage any incidents that arise. Properly functioning cyber controls will assist in complying with data protection legislation. Scheme managers should establish and operate adequate internal

			<p>controls to reduce cyber risk. Ensure governing body has knowledge and understanding of cyber risk.</p> <p>Understand the need for confidentiality, integrity and availability of the systems and services processing personal data. Ensure cyber risk is listed in the risk register and reviewed regularly. Assess at intervals the vulnerability of the scheme's key functions, systems and assets and service providers to this risk. Consider specialist skills and expertise to understand and manage this risk. Ensure controls are in place .i.e anti-malware, anti-virus applications etc. Ensure systems and data are backed up regularly. Have policies in place for the use of devices for remote and home working. Maintain a cyber incident response plan.</p>
<u>Communications and disclosure</u>			
CAD001	General Principles for member communications	NEW	Guidelines as to how, when, what information is passed to members and

			in what format to meet legal obligations when communicating with members.
CAD005	Scams	NEW	As part of internal controls appropriate steps should be taken to mitigate the risk of scams. Due diligence should be carried out where appropriate for transfers and requests for early retirement. Governing bodies should ensure that members are made aware of such risks by providing clear information on how to stop a scam in all relevant comms to members and on scheme website etc. The PSIG code of good practice is a helpful tool to help protect members from scams.

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Local Pension Board

11 October 2021

Pension Administration Report



Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

- 1 This report briefs the Board on the Fund's pension administration and service provision to members, as well as providing an update Key Performance Information.

Executive summary

- 2 Pension administration services have been provided to members uninterrupted since lockdown. Communication with members has continued through the provision of the Fund's Telephone and Online Services. Since lockdown, the Fund has paid benefits to 1,700 retirees. Whilst in the first quarter of 2021/22, 227 retirement cases were processed with 97.70% of those retirees receiving a statement within 10 days of the team receiving the necessary information. This report seeks to provide the Board an overview of pension administration performance.

Recommendation(s)

- 3 The Board is asked to note the report.

Background

- 4 This report provides an update to the Board on pensions administration performance, its key communications with members, and any issues impacting the service provided to scheme members.

Key Performance Indicators (KPIs)

- 5 Included in Appendix 1 are a number of Performance Indicators, with the aim of making the Board aware of administration performance in key areas. Reporting is included for the first quarter of 2021/22, ie. 1 April to 30 June 2021. The data covers services to members in respect of retirement, deferment (leaving scheme before pension payable), Helpline support, and Online services.
- 6 In the first quarter, the administration team processed 227 retirement cases. Measured in line with the Disclosure requirement of providing scheme member a statement containing retirement information within two months of retirement, the Fund met this target in 80.18% of the 227 cases. The majority of failures were as a result of late information from employers. In respect of performance within the administration team's control, the Fund provided a statement containing retirement benefit information within 10 days of receiving all required information in 97.79% of cases in the quarter.
- 7 In respect of deferment cases, the Fund were notified of 237 early leavers in the quarter. In line with Disclosure requirements, the Fund wrote to members in 99.50% of these cases within two months to provide each member information as to the rights and options available.
- 8 To 30 June 2021, the pension administration team received 3,405 telephone calls to the Fund's Helpline. Of these calls, the team answered 98.00% of scheme members' calls first time. In respect of Online services for members, 13,934 members have registered for the Fund's Pensions Online portal, where 10,619 online calculations have been completed, 7,518 changes have been transacted and 1,116 secure messages have been sent.

Services to members during Lockdown

- 9 Since the beginning of the covid-19 crisis and UK lockdown, the pension administration team have worked from home. During this time, the Fund's Telephone Helpline, Pensions Online portal and email inbox have been available to members uninterrupted. Since lockdown, the team have processed 1,700 retirements (lump sums paid, new pensioner payroll records created), benefits have been paid to 1,276 bereaved families, and 392 transfer have been paid in or out.

Prudential

- 10 Members of the LGPS are able to increase their benefits through an Additional Voluntary Contribution (AVC) facility. As such, each Administering Authority is required to have arrangements with an AVC provider (often an insurance company or building society). Durham County Council Pension Fund offers its members two providers: Prudential and Standard Life.
- 11 It was reported to the Board previously, that one of those providers, Prudential, has recently introduced a new ICT system across its business. The implementation has resulted in delays for members who have invested through Prudential. In particular, claims for cash at retirement, and the processing of contributions have been delayed. Board Members were previously provided with a copy of communications received from Prudential.
- 12 Since the last Board Meeting, the Fund is cautiously optimistic of improvement. Whilst issues remain, performance has improved with scheme members' contributions being allocated more quickly and are currently up to date. Disinvestment timescales have also improved and are currently within the 30-day SLA. The Fund is, however, still waiting for accounting information – an issue affecting LGPS clients of Prudential across the country. Both the Pensions Regulator (nationally) and External Auditor (locally) have been made aware.
- 13 Officers continue to monitor the situation and will continue to feedback to the Board.

Annual Benefit Statements

- 14 A copy of the 2021 Annual Benefit Statement was shared with the Board at its July Meeting. Since that meeting, all Annual Benefit Statements for both Active and Deferred members of the Scheme were made available ahead of the statutory deadline of 31 August 2021. Unless a member has opted out of the service, the Statements were be made available through the Fund's Pensions Online portal. A paper copy was provided to the small number of members who have opt-ed out.

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Appendix 1: Performance Indicators

Performance to 30 June 2021

Category	Performance Indicator	Cases in Quarter	Performance in Quarter	Cases in Year to Date	Performance in Year to Date
Retirements – Disclosure	Within two months of retirement provide a statement containing retirement benefit information.	227	80.18%	227	80.18%
Retirements – in Fund’s control	Within 10 days of receiving all required information provide a statement containing retirement benefit information.	227	97.79%	227	97.79%
Deferments - Disclosure	Within two months of being notified of a leaver, provide that member information as to the rights and options available.	237	99.50%	237	99.50%
Telephone Helpline	Calls from Scheme Members answered first time	3,405	98.00%	3,405	98.00%

Category	Performance Indicator	Total Registrations to date	Total Online Calculations Completed by Scheme Members	Total Changes Transacted Online by Scheme Members	Secure messages sent by Scheme Members Online
Online Portal	Total Registrations, and Activity through Pensions Online portal (https://pensionsonline.durham.gov.uk/)	13,934	10,619	7,518	1,116