

Report to IWLGPS Pension Board

Report from CIPFA – Annual Conference for Pension Board Members held 18th May 2022

This was a hybrid conference with physical attendance at Canary Wharf, London. I attended virtually. Slides of the conference will be sent to Pension Board members.

Introduction – Mark Wynn (Chair CIPFA / SAB Joint Compliance and Reporting Committee)

CIPFA is a toolkit for Pension Board activity. Integrity of Pension Boards essential for effective functioning.

Item 1: Scheme Advisory Board update – Cllr Roger Phillips (Chair LGPS Scheme Advisory Board)

Slides presents a list of some of the current activities of the SAB which should be on PB's agendas, the following are highlights discussed in more detail:

- Cyber Security
Vitaly import for PBs to scrutinise arrangements. One of the biggest (and growing) risks to Funds. Further discussion in agenda item 6 (below)
- Climate Change
Still waiting for regulations; target setting vital but has potential to get political. PB's role to scrutinise and monitor all aspects of ISS. Further discussion in agenda item 2 (below).
- Valuation
Monitor Fund's valuation activity. Further discussion in agenda item 3 (below)
- McCloud & Challenge

Other areas of particular interest:

- Training – important for Board and Committee, recommended mix of internal and external training.
BM Comment: Multi-source training and specialist training on certain topics may be of benefit. External training delivered to date has generally been from one source.
- Pooling – PB scrutinise the performance of Pools and if they are achieving their objectives. Relationship between Pool and PBs to be examined and active engagement between the two. Inclusion of PBs in pooling activity needs to be improved in many cases. Comment made: "Pools are here to stay – get over it".
- New Stewardship Code, Good Governance, Fair Deal, Levelling Up, Pensions Dashboard, Pooling Guidance.

Item 2: Sustainable Investment and the LGPS – (Isio)

Regulation is driving change – are we signed up to these and principles considered in our ISS and general governance?:

- UN Principles of Responsible Investment (UNRI) – signatory?
- UK Stewardship Code – signatory?
- Investment Consultants Working Group (ICSWG)

- Taskforce on Climate-related Financial Disclosures (TCFD) – Supporter?
- Taskforce of Nature-related Financial Disclosures (TNFD) – Observer?
- Pensions for Purpose – Member?

Pension Board role is a governance and scrutiny role of the decisions the Committee are making. Role is to assist the Administrating Authority in the running of the Fund but in a far more scrutiny role to ensure there is effective governance around the Committee's decision making. In order to fulfil this role, PB members require knowledge and skills in all areas of Committee decision making.

PB's role in assessment of investment managers – scrutinise:

- Risk Management
- Investment Approach & Framework
- Voting & Engagement
- Reporting & Monitoring
- Collaboration

Attractive sustainable investments do exist that meet LGPS fiduciary responsibilities. Actual targets within ISS important for PBs to effectively monitor Fund's activities. Regulation is coming and PBs to be aware and incorporate into their learning and skills development.

Additional presentation on Infrastructure Investments – PB role to securitise inclusion in ISS and Committee's knowledge and skills on investment issues.

Item 3 – 2022 LGPS Valuation – (isio)

Question for PB members: Do you know your role as a Pension Board member in the valuation process and how you can add value to the process?

PB involvement:

- Need to see timeline and monitor,
- What communication has/will be given to employers.
- Do employers receive the timeline; what information needed to encourage engagement.
- Timeline and information needed for meaningful consultation.
- Complexity of information given – a measure is – 'do we (PB) understand information sent out?
- PB – look over consultation to ensure enough information is given.
- Joint training sessions for Committee and PB.
- Understand the risks underlying valuation results: market risk, prudence risk, change of actuary, event risk, covenant risk, RPI reform, use of surplus, McCloud.

Item 4 – Single Code of Practice – Nick Gannon (TPR)

Due to lockdowns, COP's are late; no final timeline currently available.

COPs are not statements of the law (except in certain circumstances set out in legislation). However they set out TPR expectations for the conduct and practice of those who must meet the requirements of pension legislation. COP will be considered in any legal proceedings as the benchmark of what Funds should be doing.

The COP aims for consistency in all scheme types in key areas of:

- The Governing Body
- Funding and Investment
- Administration
- Communication & Disclosure
- Reporting to TPR

There will be an increased importance on internal controls.

Rough timeline – aim to lay code before summer recess 2022 but more likely autumn 2022.

PB work to understand requirement/recommendations will begin when draft code is finalised and presented to Parliament. The link below is to the last draft consultation in web-format. Can be used now to familiarise yourself with functionality and look & feel of the website as format is not likely to change.

<https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice>

TPR toolkits – a little out of date and they are looking at refreshing it. No timeline for this.

Poor performance of certain AVC provider – should be issue on PB agendas if relevant.

Item 5 – LGPS Pension Boards: Expectations, Achievements, Shortfalls plus the Pension Board's role in the Good Governance project – Bob Holloway (Pensions Secretary, LGA)

Original idea from John Hutton behind PBs was to create an external body to scrutinise LGPS Fund's activities. TPR disagreed and proposed Local Pension Boards as an independent local scrutiny board.

There are some recruitment issues with PBs and Joint Committee/PBs. Usually overcome but if long-term may indicate a systemic issue of non-compliance with the law. TPR can advise – as did with IW.

Action: Request for Administrating Authority to share with the PB all correspondence regarding intervention of the TPR with IWLGPS Fund.

Resources can be an issue, in particularly for smaller Funds. Is sharing roles, functions and/or merger with other Fund a solution?

Independence of PB essential as, if not independent, Administrating Authorities would be "marking their own homework".

Do we get the level of support as a PB which we require? Level of support from Administrating Authority should be on par with support to Committee. But independence of PB must be maintained.

Recruitment and remuneration of PB members discussed. Good Governance view is that remuneration should not be totally ruled out, it is a possible partial solution of recruitment.

Item 6 – Cyber Security – Hannah Beacham (Gowlings); John Ashdown (KPMG)

Cyber risk and threats on an increase at an alarming rate: Ransomware, Data Breaches, Data Theft, Phishing, Fraud & Identity Theft, Cyber Attacks.

- Half of all Funds do no specific security testing.
- External audit of security arrangement should be undertaken.
- Included on Risk Register.

PBs should be taking an active role in reviewing and monitoring security arrangements. Active agenda item at each PB meeting?

Are we, as a PB, sufficiently involved with monitoring and scrutiny of cyber security? Do we receive sufficient information to fulfil this role?

Barbara Milton
6th June 2022