



Local Pension Board

Date: 6th July 2017

Local Pension Board - Annual Report

Report of the Corporate Director Business and Resources

Purpose of Report

1. Attached is a copy of the Report from the Chair of the Local Pension Board to Pensions Committee.
2. This will be published on the Fund's website and referenced in the Annual Report and Accounts.
3. The report is compiled to provide feedback to Pensions Committee on the work undertaken during 2016/17 by the Local Pension Board and to meet the legislative requirement for producing an annual report.

Recommendation

4. The Local Pension Board are recommended to confirm that the report can be presented to Pensions Committee and made available on the Fund's website



South Tyneside Council

Local Pension Board - Annual Report 2016/17

Report of the Chair of the Local Pension Board

Purpose of Report

1. The report is compiled to provide feedback to Pensions Committee on the work undertaken during 2016/17 by the Local Pension Board and to meet the legislative requirement for producing an annual report.

Background

2. The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.
3. South Tyneside Council ratified the establishment of the Board with effect from 26 May 2015. The Board meets four times a year and consists of four Employer and four employee representatives.

Membership and Attendance at meetings

4. The Membership of the Local Pension Board is:
 - Nicholas Wirz (Chair) – Employee Representative (Unison)
 - Jim Woodlingfield (V Chair) – Employer Representative (Newcastle College Group)
 - Cllr Doreen Purvis – Employer Representative (South Tyneside Council)
 - Martin Rooney – Employer Representative (Lovell Partnership)
 - Mick Brodie – Employer Representative (North East Regional Employers Organisation)
 - Chris Sharkey – Employee Representative (Unison)
 - Tom Hunter – Employee Representative (GMB)
 - John Pearson – Employee Representative (GMB)
5. Attendance at the meetings has been high with an attendance rate of **93.1%**.
6. Attendance at training events has been **95.5%**.
7. A copy of the attendance record is attached at **Appendix 1**

Training

8. The Fund has offered a number of training opportunities for Board members. Where possible, training has been offered in conjunction with Pension Committee to develop and further relationships across the two groups.
9. **Appendix 1** also shows details of the training events and conferences, which have been open to Board Members.

10. All members identify their training needs to the Fund and the training events are designed to accommodate these. Board members have assessed their knowledge/skills against the national standards set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Technical Knowledge and Skills Framework for Local Pension Boards.

Work of the Pension Board

11. In its forward plan contained in the Chairman's Report for 2015/16 the Board identified the following key issues, namely:
 - The 2016 Valuation
 - Meeting legislative requirement on pooling and ensuring pooling arrangements achieve accountability and good governance;
 - Improving data quality and Improving compliance by scheme employers;
 - Ensuring pooling arrangements achieve accountability and good governance;
 - Ensuring strength in employer covenants;
 - Training plan.
12. In addition, the Board meeting on 19 October 2016 identified the following priorities.
 - Continuing scrutiny and transparency of the accounts;
 - Review of risks.
 - Moving more pensions administration on-line.

The 2016 Valuation

13. The Local Pension Board received training on the 2016 valuation in March 2016 and September 2016. The September training set out the broad strategy to be adopted for the valuation. The Board actively contributed to discussions at the training.
14. The Local Pension Board had access to all the reports presented to the Committee as part of the valuation process and have discussed the latest position on the valuation at each meeting.

15. The Funding Strategy Statement was circulated to all Board members as part of the formal consultation process. At the meeting in October 2016, the Local Pension Board confirmed that they were comfortable with the Funding Strategy Statement.
16. The valuation was signed off on 31 March 2017.

Meeting legislative requirement on pooling and ensuring pooling arrangements achieve accountability and good governance

17. One of the most important areas of work of the Tyne and Wear LPB has been to respond appropriately to the challenges presented by pooling. The Board soon realised that an appropriate governance structure for the Borders to Coast Pensions Partnership (BCPP) is a significant issue. The Board was content with the proposed arrangements with one exception. This exception is the absence of a voice to represent the interests of scheme members at pool level. The Board was unanimous that this exception should be addressed.
18. The Board, therefore, advised the Pensions Committee to use its best endeavours to secure member representation within the BCPP governance structures.
19. Linked to this, is the absence of guidance on pooling governance arrangements from the Scheme Advisory Board (SAB). To date, two letters have been sent to the Chair of the SAB from the Tyne and Wear Local Pension Board dated (17th November 2016 and 3rd February 2017), These letters are annexed at **Appendix 2**. The Board has not received a response from the Chair of the SAB. Although the SAB has not published comprehensive guidance on pooling, in March 2017 the SAB published a statement on pool governance. The statement advises:

“However the Board also encourages scheme managers to involve those same employers and member representatives in assisting with the assurance of transparent reporting from pools and ensuring the effective implementation of strategies by pools. Such involvement should include the consideration of provision of direct representation on oversight structures”

This does not reflect the Tyne and Wear LPB’s position, however, it is noted that funds involved in establishing pools should consider direct representation on oversight structures. It is hoped that this will support the Tyne and Wear Pension Fund Committee’s continued endeavours to facilitate member representation at pool level in line with the Board’s advice to the Committee.

20. On 15th February 2017, emails were also sent to the Chairs of the Boards within the BCPP to establish whether they had had any input on this issue and what that input had been. The contents of my email to the Chairs of the BCPP Boards is at **Appendix 3**. Opinions amongst those who responded to the correspondence were split on the issue. It is noteworthy that not all LPBs within BCPP were consulted and not all offered their Committees an LPB view.
21. The responses to the letter to Board Chairs revealed an appetite to establish lines of communication between Board Chairs within the BCPP. I have, therefore, set up an on-line forum for Board Chairs to communicate and share information with a view to improving the quality and effectiveness of all Boards within BCPP, particularly in relation to pooling. It is my intention to report in next year's annual report on the effectiveness of this forum.

Improving data quality and improving compliance by scheme employers

22. The Board was concerned that a number of scheme employers were consistently failing to comply with the requirements of the scheme administrator. In many cases the actions taken by the scheme administrator did not appear to achieve the necessary compliance. The Board's principal concerns around this issue were that the Fund is less effective as a result of inaccurate information and payments etc. To comply with its legal duties, the scheme administrator needs scheme employers to comply with theirs.
23. This is now a standing agenda item. The Board receives an update from the scheme administrator at each Board meeting. If necessary, the Board will advise the Scheme Administrator to pursue stronger enforcement action such as reporting the defaulting scheme employer to the Pensions Regulator.
24. The Board is pleased to note an improvement in compliance by scheme employers. Concerns do, however, remain and this issue will continue to be a standing agenda item for Board meetings for the foreseeable future.

Ensuring Strength In Employer Covenants

25. The strength of covenant is assessed as part of the triennial valuation. To inform the Fund's approach to the 2016 valuation, the Fund commissioned an audit report from Deloitte on employer covenants. This report was finalised in December 2015 and concluded that the Fund had a sound system of controls in place and provided a Substantial Assurance Level. This is the highest level of assurance provided by Deloitte.

26. The Fund's approach to employer covenants and the setting of deficit recovery periods has been covered in reports to Pensions Committee. The Board has access to these reports and has discussed these at quarterly meetings. In addition this was covered in the training delivered by the Fund Actuary in September 2016. The approach is also set out in the Funding Strategy Statement to which the Board contributed its views.

Continuing scrutiny and transparency of the accounts

27. The Board's concerns here relate primarily to the adoption of the CIPFA guidance on the disclosure and transparency of investment management fees and expenses. The Scheme Advisory Board is encouraging all funds to adopt this guidance.
28. The Fund was an early adopter. As well as producing the final accounts on this basis the annual budget is also prepared on the same basis to ensure consistency.
29. In October 2016, the Board received a presentation from Ernst and Young, the fund's external auditor, who confirmed that the fund was fully compliant with its disclosure on investment costs as part of the 2015/16 accounts. The scheme administrator has informed the Board that this issue will be covered again for the 2016/17 accounts.
30. The Board will continue to look closely at this issue, in particular, to establish whether fees, expenses and other "leakages" might not be adequately reported under the CIPFA guidance.

Review Of Risks

31. The Local Pension Board receives a quarterly report on the risk register.
32. In addition, the Local Pension Board took part in a risk workshop delivered by Deloitte as part of the training in September 2016. This has resulted in some changes in the way the Local Pension Board reviews the risk register. In particular, there is now greater consideration on particular risks as part of each meeting.

Moving Pensions Towards An E-System

33. The Local Pension Board receives a quarterly report on the Fund's move towards the electronic delivery of pensions processing and communication with members.
34. The Fund has identified this as a key part of the delivery of its services going forward. The Local Pension Board is keen to ensure that the

proposals enhance the interface of scheme members and scheme employers with the scheme.

Costs

35. The cost of the Board are included in the Pension Fund Governance Budget. For 2016/17 the costs were £30,000. This includes the costs of training, travel and the time of the Lead Officer for the Board.

Forward plan for 2017/18

36. The forward plan for 2016/17 will continue to focus on the following issues:

- Issues of non-compliance with scheme employers
- Meeting legislative requirement on pooling;
- Continuing scrutiny and transparency of the accounts;
- Review of Risks;
- Moving pensions towards an e.system.

Financial implications

37. As outlined in the report

Legal implications

38. The Fund is required to have a Local Pensions Board as set out in the Public Service Pensions Act 2013 which also requires the Fund to produce an annual report on the work of the Board.

Equalities implications

39. There are no equalities implications.

Environmental implications

40. There are no environmental implications

Human resources implications

41. There are no Human Resource implications

Corporate landlord implications

42. There are no corporate landlord implications.

Schedule of Appendices

43. The following Appendices are attached to this report

- **Appendix 1** - Pension Board Attendance Record and Summary of Training and Conferences
- **Appendix 2** – Letters from Board Chair to Chair of the Scheme Advisory Board dated 17th November 2016 and 3rd February 2017.
- **Appendix 3** – Content of the correspondence from the Board Chair to the Chairs of LPBs within BCPP on 15th February 2017

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Appendix 1

| Board Member | Local Pension Board Meetings | | | | Training Events | | | | |
|-----------------------------|------------------------------|-------------------|--------------------|-----------------|-------------------------------------|-------------|-----------|---------------------------------|-----------------------|
| | 6th July 2016 | 19th October 2016 | 21st December 2016 | 30th March 2017 | Residential Training September 2016 | LAPFF Conf. | LGC Conf. | Residential Training March 2017 | CIPFA Training Events |
| Nicholas Wirz (Chair) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | N/A |
| Jim Woodlingfield (V Chair) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | N/A | ✓ | N/A |
| Cllr Doreen Purvis | ✓ | ✓ | ✓ | ✓ | ✓ | N/A | N/A | ✓ | N/A |
| Martin Rooney | ✓ | x | ✓ | ✓ | x | N/A | N/A | ✓ | N/A |
| Mick Brodie | ✓ | ✓ | ✓ | x | ✓ | N/A | N/A | ✓ | N/A |
| Chris Sharkey | ✓ | ✓ | ✓ | ✓ | ✓ | N/A | ✓ | ✓ | ✓ |
| John Pearson | ✓ | ✓ | ✓ | ✓ | ✓ | N/A | N/A | ✓ | ✓ |
| Tom Hunter | N/A | N/A | N/A | ✓ | N/A | N/A | N/A | N/A | N/A |



South Tyneside Council

Councillor Roger Phillips
Chairman LGPS Scheme Advisory Board
Local Government House
Smith Square
London
SW1P 3HZ

Date: 3rd February 2017
Our Ref:
Your Ref: NW/MH

Dear Councillor Phillips

Scheme Member Representation on LGPS Pools

I am writing to you in my capacity as the Chair of the Tyne and Wear Local Pension Board (LPB) and further to my correspondence dated 17th November 2016 (copy attached).

Since then, the various pools have been constructing draft constitutions in advance of the pools going live in 2018. The Tyne and Wear fund is part of the Borders to Coast pool. The Tyne and Wear LPB is concerned that our pool sees no merit in having a person attending pool meetings to represent the interests of members at pool level.

You will note the unanimous views of the Tyne and Wear LPB on this issue from my previous correspondence and how those interests might be represented. I will not repeat them here. I am reassured that other pools recognise the importance of member representation at pool level.

Given the collective view of the Borders to Coast pool that there is no place for member representation at pool level meetings, I consider it all the more important that the SAB guidance addresses this issue. The Tyne and Wear LPB believes the absence of a member perspective at pool level meetings reduces the quality and effectiveness of the pool governance arrangements. This presents an avoidable risk to all funds participating in the pool.

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I look forward to the SAB guidance and am grateful for any other steps you are able to take as Chair of the SAB to encourage scheme member representation at pool level.

Yours sincerely,



Nicholas Wirz
Chair – Tyne and Wear Local Pension Board
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Jarrow
Tyne and Wear
NE32 3LE
M: 07826 903299
T: 0191 4936080



South Tyneside Council

Councillor Roger Phillips
Chairman LGPS Scheme Advisory board
Local government House
Smith Square
London
SW1P 3HZ

Date 17th November 2016
Our Ref
Your Ref NW/MH

Dear Councillor Phillips

Re: Scheme Member Representation on LGPS Pools

I am writing to you in my capacity as the Chair of the Tyne and Wear Local Pension Board (LPB). As you are aware, Pensions Committees and their Scheme Administrators are currently working hard to establish pools, including their governance arrangements.

The Tyne and Wear LPB has likewise given this issue considerable attention over recent months. At the Board Meeting on 19 October 2016, the LPB unanimously resolved to write to you in your capacity of SAB Chair. The Board is anxious that the interests of scheme members are properly represented at pool level.

A key role of the SAB is to issue Guidance. I know that the SAB is currently formulating national Guidance to inform the pooling process. The Tyne and Wear LPB would like this Guidance to provide clear proposals for scheme member interests to be represented at Pool level. This will have a number of benefits:

- It will contribute to the good governance of the LGPS;
- It will assist LPBs to discharge their statutory duties;
- LPB representations to Pensions Committees will be more effective if they are in line with national SAB Guidance;
- A trade union voice representing collective member interests will increase member confidence in the LGPS.

The Board acknowledges that different Pools will constitute themselves differently. It is the view of the Tyne and Wear LPB that the trades unions, which represent scheme members working for scheme employers are well placed to represent scheme member interests.

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I look forward to publication of the SAB Guidance on pooling and I hope the Tyne and Wear LPB's concerns will be addressed.

Yours sincerely

A handwritten signature in black ink, appearing to read 'pp h w l', written in a cursive style.

Nicholas Wirz
Chair
Tyne and Wear Local Pension Board

Content of Correspondence from the Chair of the Local Pension Board to other Local Pension Board Chairs on 15th February 2017

Dear Local Pension Board Chair,

I am writing to you in my capacity as the Chair of the Tyne and Wear Local Pension Board.

At our quarterly meeting on 21 December 2016, we learned that the Pensions Committee representatives of the funds comprising the Borders to Coast pool (The pool) have resolved not to allow any representation at pool level for scheme members. At our previous Board meeting, we unanimously advised the Tyne and Wear Pensions Committee that whilst we were happy that employer interests are adequately represented at pool level by elected members, there needs to be a person to represent the interests of scheme members at pool level.

We were not advising the Tyne and Wear Pensions Committee to give an employee representative any voting rights. We consider that it is a matter of good governance that a scheme member point of view is present and available at all pool meetings attended by Pensions Committee members. This view is shared by the Tyne and Wear Pensions Committee.

As a Board, we feel strongly that the absence of a voice representing scheme member interests at pool level is an omission, that we are not willing to merely accept.

My purpose in writing to you is to establish:

1. Whether your views as a Board were sought on whether there should be scheme member representation at pool level?
2. Whether you provided your pension scheme with any views on scheme member representation at pool level and if so, what were those views?
3. Do you agree that the absence of a scheme member voice at pool level represents an unsatisfactory omission and that you would like to see scheme member representation at pool level written in to the pool constitution?

If you share the Tyne and Wear Board's concerns, there may be merit in taking this issue up with your own Pensions Committee. If several Pension Boards within the pool raise this issue as a concern, hopefully, we can secure an improved governance structure at pool level to everyone's benefit.

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I am grateful for the time you spend on this correspondence. More generally, I hope we will be able to establish lines of communication among the Boards within our pool, which will help us all to discharge our statutory duties more effectively.

Yours sincerely

Mike Harding

On behalf of Nicholas Wirz

**Chair – Tyne and Wear Pension Fund Local Pension Board
Town Hall, Grange Road, Jarrow, Tyne and Wear NE32 3LE**

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The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

| Background Paper | File Ref: | File Location |
|-------------------------|------------------|----------------------|
| | | |