

Scheme Advisory Board

MEETING – 18th JANUARY 2021

ITEM 3 - PAPER A

ACTIONS AND AGREEMENTS

INVESTMENT, GOVERNANCE & ENGAGEMENT COMMITTEE

VIRTUAL MEETING HELD ON 12th OCTOBER 2020 – 11.00am

PRESENT

Cllr Yvonne Johnson	Chair
Cllr Robert Chapman	LAPF
Peter Wallach	Practitioner
Rodney Barton	Practitioner
Mark Wynn	Treasurers
Pete Moore	CIPFA
Colin Meech	Members (Unison)
George Georgiou	Members (GMB)
Annemarie Van Bochove Allen	Actuaries (Barnett Waddingham)
Nigel Thomas	Actuaries (Mercer)
Nick Jellema	Actuaries (Hymans)
Mary Lambe	Actuaries (Aon)
Teresa Clay	MHCLG
Fiona Miller	Pool Operating Companies
Jeff Houston	Head of Pensions, LGA
Bob Holloway	Pensions Secretary, LGA
Liam Robson	SAB Secretariat, LGA

APOLOGIES

There were no apologies. All other members (or substitutes) were present.

1. Welcome, introductions and declarations

The Chair welcomed all in attendance.

2. Actions and agreements from meeting of 13 July 2020

Fiona Miller (FM) pointed out missing text at paragraph 5 on page 3. (This has now been corrected).

Mary Lambe (ML) asked whether SAB's Secretariat would be meeting with the relevant QC's to consider the implications of the recent Supreme Court judgement. Bob Holloway (BH) explained that no meeting is planned but that Nigel Giffin QC who submitted a legal opinion to SAB on fiduciary duty amongst other things in 2014 and 2015 has been asked to revisit that opinion in the light of the Supreme Court judgement. That further opinion has yet to be sent.

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Annemarie Van Bochove Allen asked the Secretariat to use her full name in future minutes.

The minutes of the meeting on the 13th July 2020 were agreed.

3. Responsible Investment Guidance

Bob Holloway (BH) introduced Paper B and reported that at the meeting on the 20th August SAB had agreed the committee's recommendation that the Secretariat should procure a web design team to build the online A to Z guidance in accordance with the agreed specification. Liam Robson (LR) confirmed that he is liaising with the procurement team at the LGA on taking the procurement exercise forward. Jeff Houston (JH) stressed the importance of the successful team being fully compliant with the new accessibility requirements.

Agreed – That the committee noted the position as outlined above.

BH also referred to SAB's agreement in August that the committee should be asked to establish a Responsible Investment Advisory Group (RIAG) with a dual role of being the editorial board for the online A to Z guidance and adviser to SAB and its committees on responsible investment matters. Members were asked to consider the draft membership profile included in Paper B, subject to which, the Secretariat would come forward with a proposed list of names for the committee's consideration.

Colin Meech (CM) asked how scheme members would be represented in the group. BH explained that the group would report directly to the committee which includes scheme member representatives but that in the circumstances it would make sense for such representation to be extended to the group itself. The committee agreed.

FM asked whether the two representatives selected by the cross pool RI group could be officers from pool companies? JH confirmed that this was the proposal and stressed the importance of full representation across the whole pool community.

Councillor Chapman (RC) asked what was meant by "consultant"? BH explained that the intention is to be flexible and for the Secretariat to come forward with a range of options for the committee to consider.

Peter Wallach (PW) highlighted the difficulty of selecting just a single special interest group. BH agreed that there were a range of options ranging from those organisations who are supportive and others who are more critical. It will be for the committee to decide which is the preferred approach.

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ML asked whether respondents to SAB's earlier consultation on RI guidance could be used to identify likely candidates for the group. BH agreed that this was an option.

Action – that subject to the changes suggested by CM and FM and agreed by the committee, the Secretariat should proceed to draw up a list of names for consideration and agreement by the committee.

4. TFCD Reporting

JH introduced Paper C and explained that the Pension Schemes Bill which included key provisions on the assessment of risk associated with climate change and its reporting by private sector schemes was expected to be enacted by Christmas. Following a consultation on proposals regulations from DWP are expected in early 2021.

Teresa Clay (TC) explained that MHCLG will be bringing forward its own consultation and draft regulations to ensure that the LGPS broadly mirrors the requirements currently being introduced for private sector schemes. In response to the question whether it was right for the LGPS to be subject to the same standards on TFCD reporting as private sector schemes the committee agreed that it should.

On timetable, TC explained that private sector schemes will be required to first report at the end of 2023 in respect of the 2022/23 financial year. Members were asked whether the same timetable was feasible for the LGPS.

Councillor Johnson (YJ) said that the timetable was reasonable.

RC also considered the proposed timetable reasonable provided that the methodology was ready before April 2021. Consistency in reporting will be paramount to ensure that data can be compared objectively.

JH explained that discussions are already underway with asset managers and that a standardised reporting regime will need to apply at UK and overseas level as well as the LGPS.

Pete Moore (PM) agreed that standardisation will be key and suggested that a pilot study with one fund may be helpful.

FM advised members that Border to Coast has reported on TFCD recommendations and stressed the importance of knowing metrics and how they have been tested. It was also important to appreciate that annual accounting information will not provide all that is needed to complete TFCD reporting.

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JH asked members to consider whether TFCD reporting should form part of the annual report and accounts. FM confirmed that this had been considered by Border to Coast but that the decision had been taken to report separately.

Agreed – That the committee noted the position as outlined above.

5. Cost transparency/Compliance

Liam Robson (LR) provided an update on progress of the online reporting arrangement provided by Byhiras released in April 2020.

LR advised members that as at the end of June 2020 46 investment managers had set up 1023 schedules and uploaded 922 templates.

Members were advised that further work is needed to close off this year before any accurate conclusions on compliance can be drawn. There is evidence to show that pension funds can see the benefits of the initiative and work was also underway on the development of phase II.

FM asked LR to explain more about the new category for templates provided late. LR explained that currently a template uploaded after the 90 day deadline would show as “Complete”, but that for the compliance part of the system, a status of “Complete (late)” would enable the Board secretariat to monitor submissions over time.

PM asked what the overall percentage of compliance is. LR explained that this was difficult to assess as not all pension funds had been able to respond comprehensively, but that from an initial assessment of reconciling with individual funds report and accounts, around 20 of the 60 investment managers that had uploaded their templates (as at September 2020) appeared to have done so in full, a further 38 appeared to have uploaded most, but around 30 had not uploaded any templates. This group included private equity managers where development of phase II would allow for the upload of templates in currencies other than £ sterling.

The secretariat has been taking a pragmatic approach to compliance, where technical issues and audit sign off etc have caused delays (templates continue to be provided via email in these cases), and progress is being made to ensure greater efficiencies for next year.

Annemarie Van Bochove Allen (AVBA) asked whether resources were sufficient. LR explained that there were probably sufficient resources for the system itself and general compliance. However, to get the most from template data, a wider stakeholder group, including adviser and consultants, would need to be involved. Discussions with Byhiras and other stakeholders should be held in due course to see how this could be developed.

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Agreed – That the committee noted the position as outlined above.

6. Good Governance - Update

BH explained that when it met in August SAB had agreed to continue to give priority to the project despite the communication obstacles arising from the Covid-19 emergency and the earlier decision in April to stand down the project's working groups.

Members were advised that the team at Hymans Robertson are continuing to speak to individual stakeholders to finalise a set of draft implementation papers for consideration by SAB when it meets in November. The Secretariat will take steps to ensure that members are given the opportunity to comment on draft papers if available in time.

BH warned members that despite the priority given to the good governance project, other areas of work including McCloud remedy, 95k Cap and new employer flexibilities are likely to stretch capacity and resources at both LGA and MHCLG. TC agreed and couldn't promise any particular timetable for implementing any decisions made by SAB in November within the next six months.

Agreed – That the committee noted the position as outlined above.

7. MHCLG Update

TC referred to three main areas of work of interest to the committee:-

- **McCloud** – members were advised that MHCLG's consultation is now closed with over 100 responses received, many of which are very detailed and will need careful consideration.
- **Employer flexibilities** - work on statutory guidance to assist administering authorities and scheme employers implement the new regulations is underway and should be published in the New Year. Operational guidance is also being prepared by SAB.
- **95K Cap** – TC confirmed that MHCLG's draft regulations should be issued for consultation in the week commencing 12th October. This is against the backcloth of HM Treasury's exit payment regulations potentially coming into force in early November. Both SAB and MHCLG are seeking legal advice on the risk of challenge during the period before MHCLG's regulations come into force.

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TC also made reference to the guidance on pooling. This work is still ongoing but in view of other competing priorities the expectation is that any consultation and publication is unlikely this year.

AVBA asked for details of the QC's opinion on 95K Cap. TC referred to the time lag between HM Treasury and MHCLG regulations and the problems that this presented. Reference was also made to the legal opinion commissioned by SAB. BH advised members that the advice, if published, would only be published in the right circumstances.

ML asked if MHCLG is able to resource any recommendations made by SAB in relation to the good governance project. TC welcomed SAB's work on the good governance project but couldn't give any assurance on timescale other than it was unlikely that any time could be afforded to the project within the next six months.

8. AOB

Nigel Thomas (NT) asked if SAB will be taking any action to check the compliance of administering authorities under section 7 of the CMA Order (strategic objectives of investment consultants). BH explained that SAB had issued a statement in 2019 but that as yet, no consideration has been given to whether a compliance check should be undertaken. BH agreed to discuss the matter further with the Head of Pensions.

Action – That the Secretariat seeks a view from SAB on whether a compliance check should be undertaken.

ML asked for details of possible changes to the local pension board survey agreed by the Cost Management, Benefit Design and Administration committee. BH explained that an administering authority had asked for details of how many boards have taken out indemnity insurance and of those that had, how many claims have been made. The survey already included a question on whether insurance has been taken out and the CMBDA committee agreed that an additional question on any claims should be added.

9. Date of Next Meeting

The date of the next meeting was confirmed as 18th January 2021.

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