Nottinghamshire County Council

Report to Pensions Sub-Committee

22 July 2014

Agenda Item: 8

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

LGPS TRUSTEES CONFERENCE 2014

Purpose of the Report

1. To report on the 11th Annual LGPS Trustees Conference.

Information and Advice

2. The 11th Annual LGPS Trustees Conference, organised by the Local Government Pensions Committee (LGPC), was held on 19 to 20 June 2014 in Bournemouth. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills, the conference was attended by Cllr Parry Tsimbiridis, Cllr Reg Adair and Simon Cunnington (Senior Accountant – Pensions & Treasury Management). This is the first time that representatives of the Fund have attended this conference.

3. ***Acts, Bills and all that***
   The first session was presented by Jeff Houston, Head of Pensions at the Local Government Association (LGA), who covered the implications of the Public Service Pensions Act 2013, the Pensions Act 2014, the Pensions Bill 2014 and the draft Institutions for Occupational Retirement Provision (IORP) II Directive. He began by outlining the governance aspects contained within the Public Service Pensions Act 2013 (PSP Act):

Responsible Authority	For the LGPS, the Secretary of State for Communities and Local Government
Scheme Manager	For the LGPS, the organisation named as the administering authority
Pension Board	No detail yet but draft regulations were expected shortly after the conference
Scheme Advisory Board	Currently have a shadow board in operation. The draft regulations will contain further detail on the full board

4. The majority of administering authorities will discharge the function of Scheme Manager through delegation to a committee under section 101 of the Local Government Act 1972. However, the Pension Board is created by the PSP Act and subsequent regulations and is not automatically covered by the normal Local Government powers and restrictions.

5. Jeff outlined the main points likely to feature in the consultation on the draft regulations:
    - Whether the Pension Board could be the same as the existing pensions committee
    - Whether councillors can be members of the Pension Board
    - Whether membership would be prescribed or left to local flexibility.

    The draft regulations have now been issued and discussions have already begun at Nottinghamshire regarding the implications of the likely changes.

6. The Pensions Act 2014 introduces the single tier state pension but also removes contracting out for pension schemes from 1 April 2016. Jeff raised the point that, contrary to popular belief, not everyone would get the full rate of state pension as it was dependent on the number of years of contributions. This is important for LGPS members considering the affordability of retiring. The loss of contracting out will mean that employers (such as the County Council) will face an increased national insurance bill.

7. The Pensions Bill 2014 was introduced following the budget and included the measures to allow members of defined contribution (DC) schemes to take their full pension as a lump sum. This has no direct impact on the LGPS but may have an indirect effect if members choose to transfer their pension into a DC scheme in order to take advantage of the extra flexibility. Banning such transfers from funded schemes is being considered.

8. Finally, Jeff covered the main issues from the draft IORP II directive. These include articles covering annual benefit statements and a “fit and proper” requirement for all who run pension schemes. This is unlikely to be applied to the LGPS but this may face challenge.

9. ***Keeping it local***
    Cllr Kieran Quinn, chair of the Greater Manchester Pension Fund (GMPF), explained how they were investing in the local area. GMPF is the largest LGPS fund in England and Wales with over £13 billion worth of assets and has a long history of investing locally. The fund has recently increased its allocation to local investment to 5% of the fund (approx. £600 million). This is invested through four channels:
    - Greater Manchester Property Venture Fund (GMPVF)
    - Investment alongside Evergreen (a commercial property fund)
    - Residential property (Matrix Homes)
    - Invest for Growth

10. The GMPVF undertakes property development within the North West of England. It targets commercial returns but has a secondary aim of supporting the area through employment and regeneration. Matrix Homes is building around 250 homes in Manchester, half to sell and half to rent, and GMPF is providing the capital to fund the development on land provided by Manchester City Council. Invest for Growth is a collaborative project with other LGPS funds through which £157 million has been committed to 5 investments with the twin aims of commercial returns and positive socio-economic impact. GMPF is considering options for a second phase to be focused locally.

11. ***Four corners of the earth***
    In contrast to the previous session, Linda Selman from Hymans Robertson showed how LGPS funds have progressively been diversifying into overseas investments. Seven years ago, the average LGPS equity allocation had 50% in the UK. This is now 38%, with the main

increase being to global mandates. This still shows a preference for the UK compared to market indices – the UK only makes up 8% of the MSCI ACWI index.

12. The main stated benefit of increasing overseas exposure is diversification from the UK. However, Linda showed that the correlation of the UK market with global equities was 92%. In fact the UK market is quite highly correlated with most overseas markets apart from Japan. An additional risk highlighted was the exposure to other currencies which can increase or decrease returns in sterling terms.

13. ***The Northern Ireland experience***
David Murphy, Chief Executive and Secretary of the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) outlined their place within the LGPS and asked whether the rest of the UK could learn from their experience. The NILGOSC fund is about £5 billion with costs of £14.6 million. The fund is overseen by a board with members appointed by the Department of the Environment – five board members are nominated by employers and five by the trades unions; three members, including the chair, are independent.

14. David highlighted what he saw as the strengths of the NILGOSC system. The public appointments process of board members allows appointment against a specific skillset although there can be a problem with a lack of applicants. All board members act in the interests of all scheme members regardless of who nominated them. The board undertakes training and appraisal including an annual training needs assessment, a target of 40 hours training per year and an annual assessment of the board (including the "group dynamic").

15. ***Communication through collaboration***
Mary Lambe, Pensions Adviser at the LGA, ran through the various communication channels that the LGPC has co-ordinated for the LGPS 2014. The LGPC used a communications working group (with representatives from 16 LGPS funds) to adopt a collaborative approach to the communications, with sub-groups focusing on each strand. These strands included a dedicated website, online videos and modellers, leaflets and guides. Additional websites are also available specifically for LGPS funds and employers and the Shadow Scheme Advisory Board.

16. ***Call for evidence***
Sir Merrick Cockell, the outgoing chair of the LGA, gave a quick résumé of the journey to LGPS 2014 via the Hutton reports. This led to the "call for evidence" (which received 133 responses) and the latest consultation on opportunities for collaboration. The LGA does not believe that managing all listed assets passively is the way forward as a small effect on performance could wipe out any cost savings. In any case, there are many different varieties of passive investment and it would be very difficult to specify one as being most suitable.

17. The LGA believe it is better to look into the causes of under or out-performance and to support or intervene where necessary. A "one size fits all" solution is not appropriate. Common Investment Vehicles (CIVs) may be able to reduce fees but they are not the only way to invest on a collaborative basis.

18. ***Responsible Stewardship in 2014***
Deborah Gilshan, Corporate Governance Counsel at RPMI Railpen, began by highlighting the top 10 risks likely to cause an impact on a global scale as identified in the World Economic Forum Global Risks 2014 report:
    1) Fiscal crises in key economies
    2) Structurally high unemployment / under employment
    3) Water crises
    4) Severe income disparity
    5) Failure of climate change mitigation and adaptation
    6) Greater incidence of extreme weather events
    7) Global governance crisis
    8) Food crises
    9) Failure of a major financial mechanism / institution
    10) Profound political and social instability

    These mostly have an ESG (Environmental, Social and Governance) connection.

19. Railpen is a long term responsible investor and so the long term performance of investee companies matters. It is therefore active in voting and engagement with companies. The approach is to work in collaboration with its investment managers and also collectively with other asset owners around the world. Deborah listed a number of questions that investors should be asking on stewardship. The Nottinghamshire Fund's existing policies and practices already cover these issues.

20. ***Investment Spotlight***
The spotlight was on Diversified Growth Funds (DGFs), presented by Atul Shinh from Investec Asset Management. Atul initially highlighted how the investment world has changed over the last 20 years, becoming increasingly global and complicated. This, he argued, means that investors need an 'enhanced tool-kit' which of course involves DGFs.

21. DGFs are in many ways similar to the old balanced mandates in which a manager made asset allocation decisions between traditional asset classes of equities, gilts, property and cash. However, DGFs have access to a far wider range of assets including corporate and overseas bonds, currencies, commodities and infrastructure. This gives them more opportunities to generate growth and their structures allow them to move more quickly between asset classes than a whole pension fund could.

22. However, there are a number of risks involved including variable quality of the manager, the complexity of the strategy, fee levels and the fact that DGFs won't perform as well during bull markets. The last point is seen as a benefit in that it reduces the volatility of returns from equities. But, as a long term investor, the Fund is able to accept volatility and would therefore lose return during strong equity markets.

23. ***Keynote Address – LGPS Governance***
The final presentation was given by Joanne Segars OBE, Chief Executive of the National Association of Pension Funds and Chair of the Shadow Scheme Advisory Board. Joanne described the LGPS as a long term game but one that is constantly changing. There has recently been a lot of change, including the new LGPS 2014 scheme, but there is even more to come and it is vital to get the implementation right.

24. The Shadow Scheme Advisory Board has also been busy in its first year of operation. The Board has two objectives:
    - To provide advice to the Secretary of State on the desirability of changes to the scheme
    - To provide advice to scheme managers and pension boards on the effective management and administration of the scheme

25. Much of the Board's activities flow through its sub-committees. Joanne informed the conference of some of these activities.

Sub-Committee	**Key Actions**
Admin & Communications	Developed guidance on annual benefit statements for the new scheme. Reviewing the three-tier ill-health arrangements.
Governance	Developing guidance for the new LGPS governance arrangements in conjunction with DCLG and the TPR. The board believes that government should explore ways to deliver greater separation between local funds and their administering authorities.
Value for Money & Collaboration	Produced a comprehensive list of current collaboration initiatives.
Cost Management & Contributions	Set employee contribution bands for 2014/15 and agreed the terms of the cost management process to keep within the 19.5% shared cost ceiling.
Investment & Engagement	Secured counsel opinion on the investment aim of the LGPS – there is a fiduciary duty to secure best returns for employers and scheme members but funds can take account of other issues provided there is no material effect on returns.

26. One of the key tasks of the Board has been to compile reliable and consistent data across the scheme. Phase one has been to gather all fund annual reports in one place. Phase two is to aggregate the data at scheme level (this will shortly be completed). Phase three will be to develop a set of financial and non-financial health indicators that will help to compare one fund with another. This is important as it will enable the LGPS to tell its own story rather than allowing others to fill the gap.

27. Joanne then gave the Board's view on the latest consultation on collaboration by reiterating the LGA's view that a "one size fits all" approach is not appropriate. The focus should be on value for money, not just cost and the government should be wary of losing investment returns through "mandation" of passive investment. The greatest opportunity for cost savings without affecting returns is through internal management which the consultation seems to have forgotten. The Board has also been asked to look specifically at measures aimed at reducing deficits and the aim is to provide suggestions to the Minister later in the summer.

28. Joanne finished the conference by sharing her understanding of what was likely to be key elements in the consultation on scheme governance:

- Local pension boards will require a minimum of 4 members (with equal number of employer and scheme member representatives)
- Boards can have “other” members but these may not outnumber the employer and scheme members representatives
- Councillors will only be able to serve as “other” members
- The Pension Board can be the existing Pension Committee but only with permission of the Secretary of State.

Statutory and Policy Implications

29. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That it be noted that attendance at key conferences is part of the Fund’s commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills.
2) That the report be noted

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Constitutional Comments

30. Because this report is for noting only, no Constitutional Comments are required.

Financial Comments (SRC 14/07/14)

31. There are no financial implications arising from this report.

Background Papers and Published Documents
Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None