

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

PENSIONS AND LIFETIME SAVINGS ASSOCIATION (PLSA) LOCAL AUTHORITY CONFERENCE 2023

Purpose of the Report

1. To report on the PLSA Local Authority Conference 2023 held in the Cotswolds.

Information

2. The PLSA Conference 2022 was held on 26th to 28th June 2022 in Gloucestershire. 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 Mr Chris King and Mr Nigel Stevenson (Service Director – Finance, Infrastructure and Improvement).

3. ***Pre-Conference Meetings***

The conference commenced with a number of sessions covering topics ranging from the need for data management plans, data insights, private equity investment strategies and understanding the consequences of emission categories (entitled the Paris alignment paradox). These included presentations from Haywood Pensions Technologies, Foresight Group and Storebrand Asset Management. The presentation on the Paris alignment paradox reaffirmed the significant gaps in data especially with Scope 3 emissions and the difficulty of making decarbonisation decisions without that data. Consequently, measuring alignment of portfolios to net zero goals is challenging and may lead to unintended consequences if portfolios focus too much on carbon targets rather than solutions.

4. ***Emma Douglas, Chair, PLSA***

The main conference began with Emma welcoming everyone to the Conference and setting the tone for the event.

5. ***Taking the temperature of the LGPS***

With the launch of the England and Wales Scheme Advisory Board (SAB) Annual Report 2021/22, this session examined the health of the scheme and reviewed the developments in Scotland and Northern Ireland. The panel discussed how macroeconomic uncertainties, the cost of living crisis and levelling up will dominate the future work of the scheme. This session included presentations from Councillor Roger Phillips, Chair of the SAB, Richard McIndoe, Strathclyde Pension Fund (SPF), David Murphy, Northern Ireland Local Government Officers

Superannuation Committee (NILGOSC) and Joanne Donnelly from the Local Government Association.

Here are some key LGPS highlights from the England and Wales Annual Report 2021/22:

- Total membership of the LGPS increased slightly, growing by 161,871 (2.6%) to 6.39m members in 2022 from 6.23m in 2021
- The total assets of the LGPS increased to £369bn (a change of +7.8%). These assets were invested in pooled investment vehicles (67%), public equities (12%) bonds (3%), direct property (3%), as well as other asset classes (15%)
- The Local Authority return on investment over 2021/22 was 8.1%. This compares to UK CPI year on year inflation of 8.8% (Sept – Sept)
- The scheme maintained a positive cash-flow position overall, including investment income.
- Over 1.95m pensioners were paid over the year
- Life expectancy rebounded to similar levels pre-covid with an increase by 0.8 years and 0.6 years for males and females respectively (2021 figures v 2022)
- Total management charges increased by £385m (+22.5%) from £1,711m. This was primarily driven by a £381m (25.6%) rise in investment management charges, while administration and oversight and governance costs remained broadly stable

Councillor Phillips launched the England and Wales SAB annual report to year end 2022. He discussed the potential reputational damage of regulatory delays with the Minister for Pensions, and urged funds to progress certain items without waiting, eg Good Governance, Task Force on Climate-related Financial Disclosures (TCFD) reporting. Richard provided an overview of the robust health of the SPF. He expects the 2023 actuarial valuation to show good results for most Scottish funds despite market challenges, investment performance and inflation. David advised of a similarly positive outlook across NI and discussed the regulatory challenges being faced in NI. Joanne expects that pooling will be discussed further in the Mansion House speech in July and a consultation launched before summer recess. A large volume of responses to the TCFD consultation are being analysed - earliest legislation next April (and this is a tight timetable). There's an increased likelihood of legal cases in the absence of regulation relating to the Goodwin ruling.

6. ***The future for LGPS Pooling***

The Department for Levelling Up, Housing and Communities (DLUHC) is to consult on the future of LGPS pooling in England and Wales. It will 'challenge' funds to move further and faster and explore whether few and larger Pools could optimise the benefits of scale. This session explored what these proposals might mean for the future of the LGPS, its investment approach and its governance and included presentations from Jill Davys (Redington), Neil Mason (Surrey County Council) and Peter Wallach (Mersyside Pension Fund).

Audience polling showed a mixed view in relation to 1) how much government should play a role in speeding up the transfer of all fund assets into pools, and 2) whether there should be further consolidation of pools. The panel supported a proactive approach by funds, not waiting for the government to formalise arrangements. Pooling has largely met its original aims with particular benefits in responsible investment and cost efficiencies. The panel agreed that articulating the objective of any proposed consolidation is key. Is consolidation needed to increase sustainability of Pools, or to increase asset value to meet government investment aims? There also needs to be focus and clarity on fiduciary duties.

7. **Concurrent Sessions**

A number of concurrent sessions were delivered:

- a) *Currency matters: understanding an “uncompensated risk” and using it to pay pensions*
LGPS funds typically see 20%-40% of annual scheme risk coming from currency exposure, and yet we have been trained to believe that currency does not matter. Looking at Westminster Pension Fund, the panel discussed practical ways to view the FX risk, manage it, and use it to improve scheme returns to pay pensions and included presentations from Bruce George, P/E Investments and Phil Trigg, City of Westminster.

An audience poll highlighted that while more than half of the LGPS assets are allocated overseas, currency risk was not a key focus at their most recent investment board meetings. Similarly, very few funds do not manage foreign exchange risk explicitly in their portfolios. Phil noted that the lack of consideration around this risk is long-standing in the LGPS. Currency risk management is often considered a zero-sum game. More conscious decisions are needed in this field. City of Westminster case study – recently reduced strategy from 30% in UK-based assets to global investments (a move not uncommon in the LGPS). Considered exposure to currency markets and the potential of using dynamic hedging strategies to reduce exposure. This can control volatility. Good governance is key to successful decision making, with officers keeping committees informed.

- b) *Infrastructure: a pooling case study*

A case study on how the eight constituent authorities within the Wales Pension Partnership and their consultant collaborated to create an infrastructure solution that suited everyone's requirements. The panel discussed the process, wins, challenges and potential learning. This session included presentations from Sam Gervaise-Jones, bfinance, Ravi Parekh, GCM Grosvenor, and Anthony Parnell, Carmarthenshire County Council.

Significant effort devoted to defining the requirements and expectations of the infrastructure programme. Two solutions have been developed to meet partner fund needs: an open-ended fund focusing on core assets and a closed-end fund on value-add assets. Both have strong ESG and local investment agendas, but financial risk and return remains the primary consideration. The panel discussed the strong commitment from Welsh partner funds – 5% allocation to infrastructure, all represented on proactive Limited Partner Advisory Committee (LPAC).

- c) *Biodiversity and Nature: The Why and How of Rescuing the Planet*

Pensions funds can play an important role in protecting nature and biodiversity. By investing in those listed companies and private projects providing impactful solutions, funds can achieve a dual objective of financial returns for members and positively contributing to the future of our planet. This session included presentations from Jon Dean and Stephane Lago, AXA Investment Managers, and Karen Shackleton Pensions for Purpose.

The audience poll showed that all agreed that funds had a role to play in protecting nature/biodiversity. Jon discussed the economic case for protecting nature and biodiversity and the key differences between these concerns and climate. Stephane advocated a threefold approach to the topic: protect; restore and reduce. Karen provided a view on the outputs of a Pensions for Purpose report on the approach of funds. The panel agreed that

the Taskforce on Nature-related Financial Disclosures (TNFD) Framework should provide some structure but that it was not yet widely in use (the focus remains on TCFD).

8. **Operational Sustainability – Solving the Administration Dilemma**

Funds are continually pushed to do more with less. How can funds futureproof their operations given the complex environments and challenges faced? Regulatory burden, talent management, ensuring robust IT systems, digitisation, membership communications, and limited resources threaten to overwhelm the LGPS ecosystem. How can we ensure long-term operational sustainability?. The presenters included Neil Mason, Surrey County Council, Andy Whitelaw, Brightwell, and Taylor Brightwell-Smith, Government Actuary's Department (GAD).

The audience poll demonstrated that concerns around workload, recruitment and training continue to drive challenges in the administration of the scheme. Neil called on funds to drive improvements through the Good Governance recommendations, particularly around the introduction of common reporting standards and training. The importance of administration to members is key - consolidation of services may be the answer, but bigger is not always better. Andy provided insight into the Brightwell experience and its recent expansion to become a provider. Focus on the right success measures, eg member satisfaction, using technology to be do more with less. Taylor provided an overview of GAD's interest in administration and the support available, with a particular emphasis on the need for good data. The panel discussed training and recruitment, eg best practice standards, career paths and accredited training. Can AI be harnessed? Data quality is still not at a standard where this is viable. Technological solutions are being developed which will help clear backlogs in the short term.

9. **Concurrent Sessions**

A number of concurrent sessions were delivered.

a) *Infrastructure – navigating a challenging environment*

What can we learn from the last two decades of infrastructure investing? How relevant is investing in private markets for UK institutional investors in the current environment? The presenters included Ian Berry, River and Mercantile Group, and Phil Triggs, City of Westminster.

Huge capex requirement to upgrade UK infrastructure over the next decade (decarbonisation, Levelling Up). Private sector capital will likely be required but an audience poll suggested 89% of funds are not planning to materially change their infrastructure allocations. Manager focuses on core operational assets and suggested that historic returns on the asset class (7-8% pa) could be maintained with lower levels of risk (given the rise in interest rates).

b) *A new funding era*

What funding strategies does the LGPS need to continue its success and maintain sustainability in this new funding era? This was a discussion of a raft of new challenges, including post valuation asset volatility, emerging surpluses, exit credits, high inflation and life expectancy after a pandemic. The presenters included Catherine McFadyen, Hymans Robertson, and Richard McIndoe, Strathclyde Pension Fund (SPF).

Catherine shared information from the Hymans Big Picture report. The average reported funding level at the 2022 valuations was 106%. What options are available to manage surplus? Reducing employer contributions, changes to investment strategy, retaining a

surplus buffer, increasing margins for prudence, or doing nothing! The audience poll showed a majority in favour of a balance between rebuilding prudence margins and some employer contribution rate reductions. Richard shared how SPF has managed its surplus and retained a stable contribution rate across its main employers over the past 2 valuation cycles. He highlighted how the outlook for both lower employer contribution rates and increased benefits outflow will impact the cashflow position, and the necessity of planning investment strategy to manage a negative cashflow position. Both discussed the challenges of employer exits in a surplus environment.

c) *The dilution of investor rights in the UK – ramifications for pension funds*

With the proposed FCA reforms to the listing regime, there is a significant risk of a regulatory race to the bottom with the dilution of shareholder rights. This session explored the ramifications for funds and what could be done to prevent this degradation of long-standing UK corporate governance standards. The presenters included Daniel Summerfield, Pomerantz, and Owen Thorne, Merseyside Pension Fund.

An audience poll showed concerns around the FCA's recent consultation on equity listing leading to a weakening of shareholder rights. There needs to be an increased focus on ESG, particularly climate. The panel noted there may be good intentions behind the perceived de-regulation, which would give funds more investment freedom. Instead, these may impact on those investing in the UK and lead to poorer equity opportunities being available. Conflicts of interest are an area for concern, which could hinder good stewardship practices. The panel concluded that there could be negative implications around reduced regulation, which could have a negative impact on LGPS members. Attendees were asked to use their voices to respond to any consultations which have an effect on the operating or performance of schemes

10. **ESG 2.0 and the role for LGPS**

Becoming net zero positive is a key strategy for the LGPS but what are the main challenges and roadblocks? With the regulatory requirements changing, how can funds make sense of a vast range of different metrics and data in the RI space? What does this mean for TCFD rules and how can funds factor in biodiversity loss? The presenters were Mark Gayler, Devon County Council, Philip Latham, Clwyd Pensions, and David Crum, Minerva Analytics.

An audience poll suggested that where funds have a net-zero target between 2046 and 2050, they are not confident in meeting this date. David noted that funds should still focus on improving their stewardship until greater green investment choices are available. The key themes explored were around engagement and exclusion when tackling ESG. Divesting in high carbon-emitting firms will improve only the fund's net-zero position, but collaboration will reduce this globally. Engage with firms directly to help them make greener choices, which will have a knock-on effect across the market. Do not ignore the social and governance aspects of ESG eg local impact investments. Mark spoke of Devon's work towards its own 2050 goal. He highlighted the part that pools have to play to ensure the companies being invested in are making greener choices. Philip noted that, following recent elections, Clwyd's new committee members showed an even greater interest in ESG. Whilst positive, funds should be aware of the increased costs due to time spent investigating and implementing sustainable practices. The session closed with a call for further government action in this space, with confirmation of TCFD reporting requirements in the LGPS.

11. ***Cost of living conundrum - communicating with employers and savers***

With the cost of living at the forefront of minds for funds, members and employers, what strategies and tools can be used to effectively engage these three groups? Day two of the Conference began with Jo Quarterman, Norfolk Pension Fund, Emelda Nicholroy, Universities and Colleges Employers Association (UCEA), and Jenny Wright, Money and Pensions Service (MaPS) setting out their thoughts on best practice and sharing case studies on good communication and engagement.

Jo provided an overview of Norfolk's communication strategy where key messages are selected and delivered repeatedly through different channels. The goal is to increase members' understanding, eg about the real cost/value of LGPS membership, the different options, where to find help and support. Emelda explained the challenges which higher education employers are facing due to the cost-of-living crisis, with contribution increases expected in unfunded public sector schemes. Positive LGPS valuation results logically mean higher education employers will want to discuss how they can benefit from this. Emelda called for greater consistency and collaboration between funds to improve working relationships with the sector. Jenny provided an overview of the cost-of-living crisis impacts on individuals, and shared details of the advice and guidance available from MaPS, including their guide for employers on financial wellbeing. The panel discussed the implications of the cost-of-living crisis on individual members. Opt outs will start to increase; funds should promote the 50:50 option through a multi-channel communications approach to maintain participation levels. Funds should encourage employers to support members directly.

12. ***DLUHC priorities for the LGPS***

The conference received a video address by Lee Rowley MP, Minister for Local Government, whereupon he provided the Government's latest thinking about the LGPS. This was followed by a panel discussion to discuss the comments as well as wider considerations impacting the community including levelling up and the pensions and growth agenda. Here, the presenters were Neil Mason, Surrey County Council, Euan Miller, West Yorkshire Pension Fund, and Clare Scott, an independent advisor.

Lee Rowley MP urged stakeholders to participate in the open consultation on McCloud. The anticipated consultation on pooling will be published in due course. He championed action to drive good data as a way to deliver benefits to everyone in the scheme. Subsequent polling revealed that the audience most wanted the government to prioritise Good Governance, with 66% of voters having made changes or planning to make changes in relation to this topic. The panel interpreted the Minister's comments as suggesting no major changes which, in the current market, is positive. They also welcomed his comments on data quality and references to exemplary governance. They highlighted that further success stories have been seen in local investment and in improvements being made to administration, which were not noted in the Minister's message.

13. ***Preparing for Dashboards – expert advice and next steps***

How to get ready for the future operational, technical and policy success of Dashboards and what are the implications of the programme reset? We heard how it is essential that funds continue work to understand the pensions dashboards ecosystem and continue their preparations for dashboards compliance when the time comes. This session included presentations from Yunis Gajra, West Yorkshire Pension Fund, Colin Lewis, Haywood Pension Technologies, and Richard Smith, PLSA.

Audience polls revealed that funds are feeling mostly informed about the dashboards programme but slightly less well prepared for implementation of dashboards, which chimed with the panel opinion. Richard provided an update on the programme. The statutory date of 31 October 2026 is the final date for connection, but the expectation is that the LGPS will get a much earlier guidance connection date. The Pensions Regulator (TPR) is advising funds to continue to keep working with their Internet Service Provider (ISP) partner to ensure they are ready to connect. Colin provided an overview of how Heywood had been heavily involved since the beginning of the programme and are working on an ISP which will be system agnostic, not just Altair specific. Yunus discussed the West Yorkshire approach to ISP procurement. Despite the uncertainty over the LGPS connection date, there is no slowing down as the fund wants to ensure lots of time for testing in advance of go live. The panel identified the key challenges which should be addressed before connection as data quality, uncertainty around the connection timetable, and the lack of certainty around what impact the uptake of the dashboard will have on fund resources post go-live. The question and answer session highlighted the potential for fraud as a downside of dashboards implementation, with panellists noting how effective communication with members and employers can help put further safeguards in place.

14. *UK Politics - the inside scoop*

The UK political scene has been particularly turbulent over the past year. What is the current state of play across England, Wales, Scotland and Northern Ireland? What impact does this have on what the government can actually achieve as the general election looms? What should the governments priorities be? The Conference concluded with the views of Katy Balls, political editor of the Spectator, providing her thoughts on the changing landscape of UK politics.

Predictions at next General Election? 1. Conservative win – unlikely due to low popularity, prospects depend on upcoming by-elections and success in delivering their 5 priorities, 2. Labour majority – probable, they're likely to "play it safe" with no major, controversial policy announcements, 3. Labour/LibDem coalition – possible, and already being planned.

Katy set out the uncertainty of the timing of the next general election. She opined that the Conservatives expected to delay as long as possible, absent any unexpected good news/further crises. That a new Labour government would comprise a large number of new MPs and a handful of veterans from the Blair administration. Overall, relatively inexperienced from a pensions perspective. She predicted that early priorities would be around regulatory reform and housing policy, and that the Chancellor's speech at Mansion House in July was likely to include some announcement on HMG's expectations of the LGPS to use its capital to boost growth in the UK.

Statutory and Policy Implications

15. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment 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 Pension Fund Committee members continue to attend appropriate conferences to enable members to be kept up to date with the main national topics relating to pension administration and investments.
- 2) That Members note the contents of the report

Nigel Stevenson
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For any enquiries about this report please contact: Nigel Stevenson

Constitutional Comments (CEH 21/08/23)

16. Nottinghamshire Pension Fund Committee is the appropriate body to consider this report.

Financial Comments (NS 10/08/23)

17. 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