



**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT**

**PENSIONS AND LIFETIME SAVINGS ASSOCIATION (PLSA) LOCAL AUTHORITY CONFERENCE 2017**

**Purpose of the Report**

1. To report on the PLSA Local Authority Conference 2017.

**Information and Advice**

2. The PLSA Conference 2017 was held on 15<sup>th</sup> to 17<sup>th</sup> May 2017 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 Nigel Stevenson (Service Director – Finance, Procurement & Improvement) and Tamsin Rabbitts (Senior Accountant – Pension Fund and Treasury Management). The theme of this year's conference was 'Global Forces, Local Solutions'.
3. ***Pre-Conference Meetings***  
The conference commenced with a number of sessions covering topics such as how to achieve affordability and sustainability of the LGPS and how LGPS investors can capture the big trends reshaping our world. These included presentations from Hymans Robertson and Capital Group.
4. ***Graham Vidler, Director of External Affairs, PLSA***  
The main conference began with Graham Vidler welcoming everyone to the Conference and setting the tone for the event.
5. ***Cllr Roger Phillips, Chair, Scheme Advisory Board – The Year Ahead***

Councillor Phillips encouraged LGPS Funds to be mindful of the political environment and the increasing need for transparency. He announced the publication of the 2016 LGPS (England and Wales) report which includes information on the growth of the scheme to around 14,000 employers and reports progress on deficit reduction since the last valuation

The launch of the Code of Transparency was also announced. This is a voluntary Code for LGPS asset managers to assist pension funds in obtaining the data they require in order to achieve transparency of investment costs.

There were indications that there would be a positive resolution to some of the MIFID II issues announced in the near future, and that a work stream would be looking at Tier 3 employers in the LGPS.

## 6. **Communicating Better**

Three speakers gave their personal experiences of communication challenges to illustrate key factors in successful communications with members and employers. Dawn Turner, currently Interim Managing Director of Brunel Pension Partnership, and Chief Pensions Officer of the Environment Agency Pension Fund talked about 'Putting ourselves in our members' shoes' to illustrate the importance of considering communications from the point of view of the recipients, and illustrating her points with an interesting collection of footwear. Ranila Ravi-Burslem from NEST gave an excellent talk on the challenges of managing communications inside NEST given the nature of the members and the employers using that scheme. This was followed by Kerry Tat-Makill, Head of Marketing & Engagement at Capita, talking about their digital communications.

Key themes were the importance of segmenting your audience in order to provide targeted communication, obtaining and learning from feedback, especially through the use of focus groups, and increasing engagement with the use of digital channels.

## 7. **Concurrent Sessions**

A number of concurrent sessions were delivered:

### a) Good Governance – Governance Outcomes

This session looked at what we can learn from new initiatives such as PLC boards, Private Sector Trustees and Local Pension boards and whether they will deliver better member outcomes in the future. The session included presentations from Adrian Chapman, Director Administration Services LGPS and Public Sector and Lorraine Harper, Head of Governance Services, JLT Benefit Solutions.

### b) Investment – Fixed Income in a Rising Rate Environment

Jon Day, Fixed Income Portfolio Manager, Newton Investment Management gave a presentation on the challenge of generating returns from bonds in the current environment. He suggested that a broader investment opportunity set is required given the historically low yields, significant economic and political risks, and the issues arising from quantitative easing. The suggestion was that best strategies in the current environment will focus on dynamic asset allocation, transparency and liquidity, outcome orientation, global investment and capital preservation.

### c) Thought Leadership – Making Inroads on Cost Transparency

This proved to be the most popular session of the three. Jason Fletcher, CIO West Midlands Pension Fund discussed the importance of cost transparency in maintaining good relationships between funds and their managers, and allowing them to focus on cost management. West Midlands Pension Fund found the steps they took to achieve greater cost transparency led them to initially disclose significantly higher costs, but these were then managed in the following years with considerable success. Imran Razvi, Public Policy Adviser of the Investment Association talked about the efforts being made to create a more consistent template for cost disclosure with funds and the Investment Association working together in conjunction with the LGA. Dr Chris Sier, Professor of Practice, Newcastle University Business School then discussed the journey he has been

on since 2008 to bring cost transparency into the spotlight, and set out proposals to provide information for funds and managers and help funds better understand and manage their investment costs.

## 8. ***The Future of Admitted and other Bodies in the LGPS***

Lunch was followed by an interesting session on the future of admitted and other bodies in the LGPS. The number of employers within the LGPS is continuing to increase, largely due to the increase in academies. Jeff Houston, Head of Pensions at the LGA and Mark Packham of PwC talked about the work that has been done on academies for the SAB. PwC have researched and collated in their report the LGPS issues arising from the academisation program from the perspective of many different stakeholders. Contrary to some recent rumours, Jeff confirmed that the solution to academy issues would be sought within the LGPS structure. DfE are seeking consistency in contributions and a lower time burden on academy staff, but DCLG and SAB are focussed on ensuring that no debts are transferred from the academy sector to other areas of the LGPS. Neil Mason, Senior Pensions Advisor of Surrey Council spoke of the many challenges faced by LGPS administrators in working with employers.

## 9. *Concurrent Sessions*

A number of concurrent sessions were delivered.

### a) Good Governance – meet the pensions regulator and hear its views on the challenges ahead

Nick Gannon, Policy Lead, and Bryan McDaniel, Public Service Regulation Consultant from The Pensions Regulator set out the regulator's view on the roles, responsibilities and priorities in LGPS governance, and discussed how local authorities, pension committees and pension boards work together in practice.

### b) Investment– Understanding MIFID II

Richard Batchelor of Eversheds and Tom Richardson, Chief Risk Officer of the Local Pensions Partnership described some of the changes which will be required by the Markets in Financial Instruments Directive II (MIFID II) which comes into force in January 2018. The new regulations will categorise LGPS funds as retail. There will be a process to opt for a categorisation of professional client, but the process and criteria for this are not yet known. The requirements to monitor ongoing categorisation and criteria with each investment manager, and potentially for each investment type will create a significant overhead going forward. The regulations will also be relevant to Pools as investment managers. The general feeling was that the regulations are unlikely to cause fundamental issues for LGPS administering authorities, but the process to comply with regulations will be time consuming. Clarification of what will be required is expected by the end of June.

### c) Thought Leadership – The Race is on – which return premia should the Pools be chasing?

Once Pool structures have been established and plans for efficiency savings implemented, thoughts will inevitably turn to return enhancement. John Harrison, Independent Investment adviser, Surrey County Council and Jo Holden from Mercer highlighted the importance of investment beliefs and that Pools should have a clear set of beliefs that will help shape the way they are governed and how investment options are structured. Opportunities in infrastructure and private equity were discussed and the

complexity premium or even the simplicity premium were also debated. John spoke of the growing importance of employer focussed investment strategies and for Pools to offer the range of options that met their risk and return requirements.

#### **10. *Next Steps for Scheme Funding***

The Government Actuary's Department (GAD) is embarking on its Section 13 report for the LGPS, assessing fund valuations against four main aims; compliance, consistency, solvency and long term cost effectiveness, and the Scheme Advisory Board in England and Wales has been assessing scheme valuations against the cost cap.

Fiona Farmer, National Officer, Unite the Union and Chair of the Cost Management, Benefit Design and Administration Committee, Scheme Advisory Board in England and Wales talked about the cost management process in LGPS, the legislative background, Treasury and SAB processes and the interaction between the two. Conclusions at the early stage are that cost management is a key component of the new scheme, there will be a lot of scrutiny and interest, and effective and meaningful engagement with all stakeholders is required.

Jon Bayliss from GAD then talked about Section 13 including the process and timeline, learnings from the dry run and what it means for funding. The 2016 valuations report is expected in spring / early summer 2018. The hope is that the Section 13 report helps funds understand risk and increases transparency.

#### **11. *A Global Retreat?***

Isabel Oakeshott, political journalist and broadcaster closed the day with an entertaining overview of political observations and election highlights past and present.

#### **12. *The Governance Premium***

This was a panel discussion involving Fiona Frobisher from The Pensions Regulator, Steve Simkins from KPMG, Clare Scott from Lothian Pension Fund and Lesley Williams from PLSA. The panel shared their experiences and thoughts on how to ensure that governance oversight is effective and adds value. Discussions covered the importance of effective training, a board make up with a diverse skillset, experience and cognitive mindset, and pension fund and administering authority separation.

#### **13. *Global Forces***

Neil Williams, Group Chief Economist of Hermes Investment Management gave an interesting presentation on the outlook for the global economy. The US is leading a two-speed recovery, with recent upwards inflationary pressure driven by cost factors rather than demand. Consequently fiscal policy is likely to be loose for longer with at least another two years of negative real interest rates predicted. The impact of Brexit, as with US protectionism, will be felt around the globe. The Euro-zone is still a monetary rather than an economic union and fiscal tools will be needed in this area. China has a range of options to soften its landing. It is likely that the quest for yield will continue.

#### **14. *Delivering Local Solutions in a Changing UK***

Lord Hutton spoke of the challenges of pensions and savings and their low current levels. The average pension pot is worth only £30k and 50% of families have no savings. He looked at changes and challenges to LGPS, including MIFID II and the continuing need for transparency and accountability. He discussed pooling, and expressed some scepticism that estimated levels of saving would be delivered, although he believes some savings are to be gained from pooling investments. Looking to the future he believes there may be further

amalgamations in the future. Decreasing the deficit is crucial, and improved investment performance could help deliver this.

**15. *Complex Times; Embracing Resilience and Creativity***

Tim Harford, Financial Times columnist, BBC broadcaster and author explored the well-known phrase “Success begins with failure” noting that many failures do not lead to future successes. He identified three key requirements to learn from failure and drive success and discussed the key difficulties with each:-

- An open exploration of options or new ideas – this can often be stifled with a tendency towards group think and conformity
- An open and honest feedback loop – but there is often a reluctance to give or receive real feedback which can be clear from the way the request is made (or feedback not being sought at all).
- Rational thinking about changing course – this is often prejudiced by our aversion to loss.

**Statutory and Policy Implications**

16. 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.

**RECOMMENDATIONS**

- 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**

17. Because this report is for noting only Constitutional Comments are not required.

**Financial Comments (TMR 29/06/17)**

18. There are no direct financial implications arising from this report.

**Background Papers**

None