

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**PENSIONS AND LIFETIME SAVINGS ASSOCIATION (PLSA) LOCAL AUTHORITY CONFERENCE 2019****Purpose of the Report**

1. To report on the PLSA Local Authority Conference 2019 held in the Cotswolds.

Information

2. The PLSA Conference 2019 was held on 13th to 15th May 2019 at the Cotswold Water Park Four Pillars Hotel 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 Councillor Eric Kerry and Mr Nigel Stevenson (Service Director – Finance, Infrastructure and Improvement). The theme of this year's conference was 'Cost and Complexities – Governing the LGPS'.
3. ***Pre-Conference Meetings***
The conference commenced with a number of sessions covering topics such as alternative credit, getting to grips with climate change and UK Real Estate. These included presentations from East Lodge Capital, Hymans Robertson and Aberdeen Standard Investments. The presentation on climate change was particularly interesting as Hymans explained how actuaries will be reviewing how pension funds are responding to this risk at the next valuation and also how events unfolded at the first presentation on the following day.
4. ***Richard Butler, Chair, PLSA***
The main conference began with Richard welcoming everyone to the Conference and setting the tone for the event.
5. ***View from Whitehall***
Rishi Sunak MP, Local Government Minister gave his personal views on progress being made on pooling, the Fair Deal proposals and on the consultation for changes to the valuation cycle. Unfortunately, members of the climate change awareness group, Extinction Rebellion, interrupted his speech. Following the initial disruption, the Extinction Rebellion members sat and listened to the remainder of his presentation, waiting for the opportunity to press the MP on climate change issues in relation to local authority pension scheme

investments. Rishi Sunak responded that “It's not my job to tell anyone in this room individually in how to invest their funds... Everyone in this room represents their scheme members to the best of their ability and ensures that they're fulfilling their fiduciary responsibilities, engaging with their various stakeholders and providing them with security in retirement... each [pension manager] in their own individual funds can put in environmental or responsible investing guidelines as they see fit, in consultation with their stakeholders.”

6. ***The Floor to Ceiling View***

The cost cap and ceiling consultation has been paused, impacting the 2019 valuations. What should funds expect and how can they plan for it? This session also saw the launch of the Scheme Advisory Board's Annual Report, setting out the scene for this year's conference. This session included presentations from Jeff Houston, LGA, Councillor Roger Phillips, Chair of the Scheme Advisory Board and Michael Scanlon from the Government Actuary's Department.

Roger's presentation set out the context for the LGPS such as the continued financial challenges for Local Authorities, Political uncertainties, the good relationships with the Minister and MHCLG, Asset pooling, the 2019 Valuation, the work of the Board (Good governance, RI guidance, Fair Deal, academies and third tier), the Code of Transparency and the launching at Conference of the LGPS Annual Report 2018.

Michael's presentation concentrated on the 2019 valuation touching on the issues of the cost cap benefits being paused, the uncertain implications of the McCloud case, the history of very good investment returns but predicted lower returns for the future and the stalling of improvements in mortality rates which may have implications on employer contribution rates at the valuation.

Jeff's presentation concentrated on two specific issues. He went into more detail on the potential permutations arising from the McCloud case and the guidance issued by the SAB/LGA on how to represent this in the 2018/19 accounts and the forthcoming valuation. He explained the inconsistencies in the current consultation on the Public Sector Exit Payments Cap, in particular how that aimed at the so called 'fat cats' in public service will impact upon pensions of all long term members of the fund on salaries of £35,000 or above because strain costs would be captured under the current proposals.

7. ***Concurrent Sessions***

A number of concurrent sessions were delivered:

a) *Valuations fit 4 the future*

A move to quadrennial valuations means that post-2019, the next one may not take place until 2024. Funds will need a dynamic funding governance structure to ensure they can proactively manage contributions and risk. This session discussed the practical steps funds must take to achieve this, and what are the benefits. This session included presentations from Paul Middleman, Mercer and Simon Taylor, West Midlands Pension Fund. Although the presenters were in favour of remaining with the 3 year valuation cycle they agreed that in moving to the 4 year cycle with the option to perform an interim valuation, then it was important to set out the triggers for that interim valuation at the outset, such as Market opportunity (Protect gain? Lower contributions? Reduce/Increase risk via strategy?), Employer objectives change (Change investment strategy? Change

contributions?) and Employer covenant change (Change investment strategy?, More/Less cash or security?, Managed exit?).

b) The UN's Sustainable Development Goals and Impact Investing: Private Versus Public Markets

Many asset owners understand the benefits of impact investing in illiquid investments and demand is growing to include more liquid asset classes, such as public equities. This session discussed the practical considerations for the LGPS funds and pools to consider when hoping to achieve sustainable impact in private and public markets. This session included presentations from Jon Dean, AXA IM Impact Investments, Karen Shackleton, Independent Adviser and Ian Smith, AXA IM Framlington Equities. The presenters indicated there was a move away from traditional investing to ones that included both social and environmental impacts that mitigated ESG risks and tolerated or accepted lower market returns. It was important therefore to set out the Fund's investment beliefs and how these would be measured. Their argument was that it was possible in the long term to achieve high returns from impact focussed investments.

c) Strengthening Pension Protection – Understanding the new Fair Deal amendments

The new Fair Deal consultation concluded in January, with the goal of protecting members' benefits in the cases of those who have been compulsorily transferred to the employment of a new service provider. This session set out what should local authorities understand about the New Fair Deal and their thoughts on the best way to communicate this to scheme members. This session included presentations from Annemarie Allen, Barnett Waddingham, Con Hargrave, MHCLG and Glyn Jenkins, UNISON.

The session began with a run through the history of the Fair Deal consultations and Regulations together with the latest proposals. The key objectives of which is that being outsourced should not potentially ruin a member's future pension expectations, to create a level playing field between bids for services by not allowing a bid that offered inferior and cheaper pension provision and to ensure that service providers admitted to the LGPS were an acceptable risk for the LGPS Fund.

Con finished the session by setting out the broad themes from the last consultation, namely, the introduction of Fair Deal in the LGPS is positive, and the proposals address several of the issues from the 2016 consultation; deemed employer status is potentially a useful addition, but SAB guidance will be crucial; using two admission routes may add complication, but most want the admission body route to be retained; engaging LGPS employers will continue to be challenging – should there be a fall-back entry route?; and, asset/liability transfer proposals are supported but the need for fund/ employer consent should be considered.

8. Refining the LGPS – LA Relationship

The relationship between local government pension schemes and their host authorities may create conflicts of interest which need to be addressed and managed appropriately, taking into account the need for the LGPS to be properly resourced and able to deliver its functions. The first of the afternoon sessions began presentations and a discussion about the latest consultation commissioned by the SAB and being delivered by Hymans Robertson regarding a review into LGPS governance structure. The presenters included Bob Holloway, LGA and Catherine McFadyen, Hymans Robertson.

Catherine gave some clarity on what the project isn't about. It is not a 'separation project' (although one of the four options is a new body). The feeling was driving up standards and identifying and adopting best practice was the preferred way forward. It is not a survey to confirm that structures are not working or that the role of S151 officers is not working. It is not about solving a known problem – they admitted they don't know what the extent of the (perceived) problem is. Their expectation is that the 'consultation' will identify any issues, solutions and best practice. They were also clear they will be providing a factual response to the SAB who then make the recommendation to the Minister. The intention is for a report to go to SAB in July – and we are encouraged to respond by the end of May deadline.

Bob provided an update on progress and put some questions to the audience. He was very clear to say on a couple of occasions that the review was not a criticism of S151 officers, but the examples provided did contradict this. A presentation the following day by the Pension Regulator indicated that they were satisfied with the conflict policies of Pension Funds and were not aware of any issues, contradicting Bob's views.

9. **Concurrent Sessions**

A number of concurrent sessions were delivered.

a) *Uniting diverse perspectives – local authorities in action*

The efficacy of the LGPS relies on many people with different ideas working together, including pension board and committee members, employers, unions and local authority officers. This session was aimed at providing advice on how we can use this tremendous diversity of opinion to the advantage of the scheme. The presenters included Sean Collins, Oxfordshire County Council, Councillor John Horner, Warwickshire County Council and Emelda Nicholroy, University and Colleges Employers Association.

b) *Cost Transparency and the LGPS*

The LGPS has been using its Code of Transparency since 2017. As disclosure becomes more mainstream, and the Cost Transparency Initiative framework comes into place across the pensions industry this session considered what the LGPS experience can tell us and what happens next. The presenters included Joe Dabrowski, PLSA, Jill Davys, West Midlands Pension Fund and Jonathan Lipkin, Investment Association. The presenters explained their approach and experience with adopting the Code. Various templates have been produced to help Funds identify all transactions costs relating to their investments. Although some Funds have accepted the Code, including Pools, which will enable more benchmarking across Funds there is some reluctance by a few to sign up to the voluntary Code.

c) *Capitalising on disruption*

Investors are increasingly short-term orientated and new products afford them the ability to act on their worst behavioural finance instincts, resulting in markets becoming less efficient. With internet platforms disrupting entire industries, reshaping market share and profits, this session set out to help investors ensure they are making the best decisions for long-term growth. The presenters included Rob Almeida, MFS and Andrien Meyers, London Borough of Lambeth. The rapid growth in the use of technology platforms has disrupted traditional commerce, not only affecting the high street but also allowing technology to analyse and benchmark market data and automate stock selection. Further disruption to Funds include Brexit and Pooling. The conclusion being that Funds should

have policy, procedures and training for dealing with this increasing change and potential disruption.

10. *Understanding the local impact of global events*

Trade wars, Brexit, climate change and geopolitical uncertainty comprise just some of the elements of the world's complicated state. These events have the potential to impact local authority finance as well as those of the LGPS. Sabina Kalyan, Co-Head of Research & Global Chief Economist, CBRE Global Investments explained why understanding how, why and when impacts may be felt is critical to the LGPS decision-making process. Sabina ran through the normal economist view of the global economic experience and outlook. Responding to the climate change agenda and risk was becoming more important. She gave an example for the need for greater awareness for investors in property, both in terms of the need to respond to the market as it moves to shorter tenancies, but more importantly to the need to respond to the climate risk by ensuring buildings are more energy efficient.

11. *This house believes the LGPS should be required to build social housing and infrastructure for the good of the nation*

Nearly everyone agrees that the UK needs more investment in social housing and infrastructure, but agreement on its funding is less clear. Should it be the responsibility of the LGPS? The first day of the Conference concluded with a team of talented student debaters from Debate Mate joining industry experts to thrash out this question in full. The industry experts included Ted Frith, GLIL Infrastructure and William Bourne, Independent Advisor. Although the motion was lost this was a highlight of the Conference as four young people demonstrated their debating skills to the conference attendees before they returned to school, college and university.

12. *TPR and the LGPS: Strengthening ties*

Day two of the Conference began with Fiona Frobisher, Head of Policy, The Pension Regulator, setting out how the TPR's new corporate plan sets out its strategic approach to be clearer, quicker and tougher and what this actually means for its regulation of LGPS governance and administration. She also set out how they plan to build effective relationships with the LGPS. The gist of the new approach entails earlier discussion with LGPS on areas of risk and seeking responses as to how they are responding. This allows a more targeted approach to those areas of particular concern. In addition, Fiona indicated that they had done a survey of LGPS which showed that the largest schemes were better governed, including policies to deal with conflicts of interest. The main barriers to improving the governance of Funds included complexity, lack of resources/time, the volume of legislative changes, recruitment/training/retention of staff and employer compliance.

13. *Investment pool governance – effective Boards and Committees*

Local authority funds in England and Wales have all joined investment pools. Statutory guidance on governance, investment strategy, structure and reporting must be balanced between providing consistency of direction without being too prescriptive. Representatives from 3 pooling areas explained their experience of the pools and what things to avoid. Presenters included Ronald Graham, Pension Board Chair, Derbyshire County Council, Fiona Miller, COO, Border to Coast and Councillor Andrew Reid, Chair of Pensions Committee, Surrey County Council.

Fiona reminded everyone that there are 8 pools with 5 variants of operating model, including owned companies and rented companies. It was evident that investment managers find this

confusing and so too would the public. As a consequence the role of Boards, which is sometimes confusing within Funds, in this new world is something that requires clarification.

14. *Preparing for the old age revolution*

The Ministry of Housing, Communities and Local Government set out the Government's perspective and key priorities for the LGPS, including an update on the Fair Deal amendments and on asset pooling. In this presentation by Baroness Camilla Cavendish, author of *Extra Time: 10 Lessons for an Aging Society*, we learnt her views on how middle age was now expanding well into your sixties and how as a society we should prepare for the change in demographics.

15. *What's the big deal about big data*

Whether it's what we will buy, how healthy we are or how long we will live, big data has the power to change our lives and help us predict what is going to happen. The host of Radio 4's *Future Proofing*, Timandra Harkness', presentation was a mix of humour and seriousness as she gave her view of the big picture of big data. One thought she left us with was that although big data and AI might help us infer something it is only humans that should and can predict.

Statutory and Policy Implications

16. 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 consider if there are any actions they require in relation to the issues contained within the report

Nigel Stevenson

Service Director - Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Nigel Stevenson

Constitutional Comments (KK 22/05/2019)

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

Financial Comments (NS 18/5/19)

18. 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