Croydon Council

REPORT TO:	Local Pension Board 10 January 2019
SUBJECT:	LGPS Governance Updates
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management: The Pension Board assists with ensuring the effective administration of the Local Government Pension. This report highlights various issues that impact on that administration.

FINANCIAL SUMMARY:

There are no direct financial consequences to these issues.

1. RECOMMENDATIONS

1.1 The Board is asked to note the contents of this report.

2. EXECUTIVE SUMMARY

2.1 This report deals with various issues being considered by the LGPS Scheme Advisory Board, including annual statistics relating to the LGPS; the Cost Cap; the separation project; the Code of Transparency; Responsible Investment Guidance; new regulations; the potential cost of the Guaranteed Minimum Pension exercise; and the impact of Brexit.

3 DETAIL

3.1 The LGPS Scheme Advisory Board (SAB) exists to guide the administration of the LGPS by considering various issues of interest to LGPS members. It publishes guidance, conducts surveys and undertakes detailed work that individual schemes cannot resource. It reports directly to the Secretary of State on these matters and consideration of the overall affordability of the Scheme. The SAB provides a valuable source of information for all stakeholders.

3.2 In October the Ministry of Housing, Communities & Local Government published Local government pension scheme funds for England and Wales: 2017 to 2018 statistics. Highlights include:

- Total Local Government Pension Scheme expenditure in England and Wales in 2017/2018 was £12.7 billion. Removing the effect of mergers and large

transfers in 2016/2017 and 2017/2018 there was a like-for-like increase of £0.8 billion or 7.4% on 2016-2017.

- Total Local Government Pension Scheme income in England and Wales in 2017/2018 was £17.4 billion. Removing the effect of mergers and large transfers in 2016/2017 and 2017/2018, there was a like-for-like increase of £3.0 billion or 21.4% on 2016/2017. This is mainly due to an increase in Employers' contributions in 2017/2018.
- Employers' Contributions to the Local Government Pension Scheme in 2017/2018 in England and Wales amounted to £9.5 billion, up 27.7% on 2016/2017, and employees' contributions to the scheme were £2.1 billion. Employers' Contributions increased due to some large upfront pension contribution payments (deficit contributions) being made by some employers and higher contribution rates following the triennial valuation. This may be particularly interesting to the Board as this is an approach that the Croydon Scheme adopted at the most recent valuation.
- The market value of the Local Government Pension Scheme funds in England and Wales at the end of March 2018 was £270.9 billion, an increase of £12.1 billion or 4.7%. This statistic is also noteworthy as, with the caveat that valuation methodologies might not necessarily be comparable, the Croydon Fund returned 3.85% for the financial year 2017/2018. The impact of the slump in the equities markets is clearly evident in these results.
- The Local Government Pension Scheme in England and Wales encompassed 5.8 million people at the end of March 2018. Of this number, 2.0 million are employees who are still contributing to the scheme, 1.7 million are pensioners and 2.1 million are former employees who are entitled to a pension at some time in the future.
- The number of people leaving the Local Government Pension Scheme in 2017/2018 due to redundancy reduced by 19.9% from 2016/2017 to 10,847. A number of funds reported there were special redundancy exercises or restructuring in 2016/2017 and that the large reduction in 2017/2018 was a consequence of that.

3.3 Several of the SAB's ongoing work streams are of interest.

3.4 The potential for a Cost Cap was introduced in April 2015. For the LGPS, employer rates are set by local fund valuations (next in 2019) but the cost cap mechanism does potentially impact. Based on work undertaken by the Board's actuarial adviser, the total cost of the scheme in aggregate and nationwide (employer and employee) under the Board's process is 19% against a target total scheme cost of 19.5%. The SAB has agreed to develop a package of benefit changes to return the scheme to its total target cost of 19.5% while also looking at employee contributions at the lower end. The resultant package will be put to the full Board for agreement as soon as possible to ensure that scheme changes are on the statute book by April 2019.

3.5 The Separation project is exploring options to help and assist with the successful management of potential conflict of interests arising between a pension fund and its parent local authority. Three bids have been received for this project to assess the practical steps that would need to be taken to implement the SAB's proposals.

3.6 The Board has invited bidders to express interest in a piece of work to develop a Compliance system in respect of the Code of transparency. This is to address

concerns about the level of transparency with reference to fund manager fees and in particular disclosure and comparability.

3.7 The Board has prepared a final draft of the Responsible Investment Guidance, reflecting recent government thinking around ESG considerations including climate risk. On 7 November the Financial Conduct Authority (FCA) launched the Cost Transparency Initiative (the CTI). The CTI is an independent group working to improve cost transparency for institutional investors with the responsibility for progressing the work already undertaken by the Institutional Disclosure Working Group (IDWG). The CTI is supported by Pensions and Lifetime Savings Association (PLSA), Investment Association (IA) and Local Government Pension Scheme Advisory Board (LGPS SAB) and was recommended as part of the IDWG's report to the FCA on 15 June 2018. The IDWG was set up to support consistent and standardised disclosure of costs and charges to institutional investors. The FCA also want to see more consistent and standardised disclosure of costs and charges to institutional investors. Their view is that a standardised disclosure template should provide institutional investors with a clearer understanding of the costs and charges for a given fund or mandate. This should allow investors to compare charges between providers and give them a clear expectation of the disclosure they can expect

3.6 The Chair of the Board, has written to the Chief Executive at the Pensions Regulator, expressing concerns about the burdens being imposed by the Regulator on individual administering authorities. This letter is appended to this report. In summary the Board notes the additional burdens facing administration teams, including the introduction of the CARE scheme. They point out that comparisons with other public sector schemes is unfair and fails to reflect the unique position of the LGPS as a locally administered, multi-employer, funded pension scheme. The point of the intervention is to express concerns about formal action, including fines, being considered against individual LGPS scheme managers.

3.7 The LGPS (England and Wales) (Miscellaneous Regulations) Regulations 2018 comes into force from 10 January 2019. These regulations empower the Secretary of State to issue guidance for the administration and management of the Scheme. There are also amendments to the regulations relating to entitlements for deferred members to draw their benefits and to the status of civil partnerships and same sex marriages to align these with the benefits for widows.

3.8 For some period of time the administration team has been focussing on the Guaranteed Minimum Pensions exercise (GMP). The GMP represents the minimum pension an occupational pension scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme (SERPS). This is a complex area and it is not the intention of this report to comment on the process. However, following a High Court ruling and the extension of the deadline to complete this exercise, the Scheme Actuary has advised this authority that the 2019 valuation will most likely reflect an increase in liabilities as a result of the scheme paying in full FMP increases for all members with a State Pension Age after 2016. This is estimated at 0.5% of liabilities.

3.9 Finally, although the uncertainty around Brexit means that effective contingency planning is difficult, HM Treasury has updated guidance that raises concerns. If

the UK, through a no deal exit, loses authorisation in the EU, because the EU decides the UK's regulatory regime no longer meets the EU's standards, then payments may not be able to be made to bank accounts held in EU states. This would cause potential difficulties for those pensioners who reside and have a bank account in an EU country.

3.10 At the time of writing it appears that all Croydon LGPS pensions are paid into bank accounts with a UK bank sorting code in sterling (GBP £). However it is impossible to tell if any scheme members have arrangements with their banks whereby funds are then transferred to bank accounts held in other EU states, Eire or Spain, for instance. The risk, in these cases, is that funds transfers might take longer than previously, that there might be a charge for doing this, and that charges to convert into Euros might be higher.

4 FINANCIAL CONSIDERATIONS

4.1 The financial considerations are set out in detail, above, in this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

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BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Letter from the Scheme Advisory Board to the Pensions Regulator.