Meeting: **General Purposes Committee**

Date: **29 May 2014**

Subject: Local Government Pension Scheme Update

Report of: **Section 151 Officer - Charles Warboys**

Summary: The report updates the Committee on recent developments in respect of the Local Government Pension Scheme, explains the governance arrangements in place and outlines the latest financial position of the Fund.

Advising Officer:	Charles Warboys, Chief Finance Officer
Contact Officer:	Ralph Gould, Head of Financial Control
Public/Exempt:	Public
Wards Affected:	All
Function of:	Council

CORPORATE IMPLICATIONS

Council Priorities:

This report provides information about the Local Government Pension (LGPS). The LGPS has been subject to significant changes over recent years as central government strives to ensure public sector pension schemes provide value for money. This objective is in line with the Council's own value for money priority.

Financial:

1. The funding position of the LGPS Bedfordshire fund and the Council are set out in the body of the report along with the level of employer contributions required from the Council.

Legal:

2. The LGPS in England and Wales is operated in line with statutory regulations made by the Secretary of State for Communities and Local Government in exercise of the powers conferred by the Superannuation Act 1972.

Risk Management:

3. Not Applicable.

Staffing (including Trades Unions):

4. Not Applicable.

Equalities/Human Rights:

5. Not Applicable.

Public Health

6. Not Applicable.

Community Safety:

7. Not Applicable.

Sustainability:

8. Not Applicable.

Procurement:

9. Not Applicable.

RECOMMENDATION:

The Committee is asked to note the report.

Background

10. The Local Government Pension Scheme (LGPS) in England and Wales is a funded public sector pension scheme with approximately 4.6 million members. The regulations for the scheme are determined by parliament and developed by the Department of Communities and Local Government. The scheme is administered locally for participating employers by ninety nine funds.

11. Bedfordshire Pension Fund, administered by Bedford Borough Council, is responsible for the pensions of Local Government employees across Bedfordshire, including Luton Borough Council and Central Bedfordshire Council. Participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services such as academy schools, contractors, housing associations and charities. Currently in excess of 130 scheme employers participate in the Bedfordshire LGPS. Scheme membership numbers at 2010 and 2013 are shown in Table 1. The significant reduction in active membership numbers for the Council mainly reflects School Academy transfers as staff other than Teachers are members of the LGPS.

12.

Table 1 LGPS Bedfordshire and CBC Membership at 31/3/13

	Fund	Fund	CBC	CBC
	31 March 2010	**31 March 2013**	**31 March 2010**	**31 March 2013**
Active	17,895	17,524	5,129	3,937
Deferred	17,091	21,083	5,568	6,755
Pensioners	11,311	13,255	3,542	4,131
Total	**46,297**	**51,862**	**14,239**	**14,823**

13. The LGPS is administered within a statutory and best practice framework. The various administering authorities apply important policies and strategies that are developed and reviewed with independent specialist advice and consultation with participating employers. The main areas are governance arrangements and funding, investment and communication strategies which can be accessed at the Bedfordshire Pension Fund website (www.bedspensionfund.org).

Governance

14. As the administering authority for the Bedfordshire Fund the arrangements for discharging the responsibilities for pension fund matters are set out in the Bedford Borough Council Constitution and the Fund's Governance Policy Statement. The administrating authority responsibility for the pension fund is a non-executive function. A Pension Fund Committee is supported by a Pension Fund Panel that makes recommendations to the Pension Fund Committee.
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15. Membership is the same for both the Pension Fund Committee and Panel and governance arrangements follow the expectation expressed by the DCLG that the administering authority should retain a voting majority on any decision making body. The Committee and Panel comprise :

- Three elected Members of Bedford Borough Council (all voting);
- Two elected Members of Central Bedfordshire Council (one voting and one non-voting);
- Two elected Members of Luton Borough Council (one voting and one non-voting). .

16. In addition, the following have been accorded official “observer” status and are entitled to attend and speak, but not vote, at meetings of the Committee and the Panel:

- Academy School Representative,
- Scheme User Observer;
- Independent Investment Adviser;
- Chief Finance Officer (Luton Borough Council);
- Chief Finance Officer (Central Bedfordshire Council).

If the membership of any non-local authority employer member of the scheme exceeds 15% of the total membership of the scheme consideration would be given to inviting that body to become a member of the Committee.

17. The Committee and Panel meet at least four times a year and support the Fund Administrator (Bedford Borough Council Assistant Chief Executive and Chief Finance Officer) in his operational responsibilities for the investment of all surplus cash of the Pension Fund that is not required immediately to meet pensions and other benefits. Specifically the Committee :

- reviews and sets the Pension Fund’s asset allocation;

- maintains the Pension Fund’s Statement of Investment Principles;

- appoints Fund Managers and regularly reviews their terms of appointment;

- reviews and sets investment objectives for the Fund Managers;

- meets with, or receives information from, Fund Managers on a regular basis to review activity, transactions and past performance and to note their future asset allocation and investment strategy;

- meets with the Actuary and the Independent Investment Adviser on an annual basis to consider the performance of the Fund Managers both over the immediate twelve month period and on a progressive three to five year period;

- reviews the Committee’s annual performance;

- considers the results and impact of the triennial actuarial valuation;

- considers and approves a Funding Strategy Statement;

- regularly considers any relevant matters relating to Pension Fund investment;

- publicises their stewardship role to all Scheduled and Admitted Bodies of the Bedfordshire Pension Fund and to all contributors and beneficiaries by means of a full Annual Report and a Summarised Report.

Actuarial Valuation 2013

18. LGPS funds in England and Wales are subject to an actuarial valuation every three years. The most recent was undertaken as at 31 March 2013. The past service deficit position for both the Fund as a whole and the Council specifically as at 31 March 2010 and 2013 is set out in Table 2. The increase in deficit between the valuation dates reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield which has increased the value placed on the Fund's liabilities.

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Table 2 : LGPS Bedfordshire and CBC Funding Levels 2010 and 2013

	Fund	**Fund**	**CBC**	**CBC**
	31 March 2010 £m	**31 March 2013 £m**	**31 March 2010 £m**	**31 March 2013 £m**
Past Service Liabilities	1,618	2,092	456	550
Market Value of Assets	1,168	1,467	314	361
Deficit	449	625	142	189
Funding Level	**72.2%**	**70.1%**	**69%**	**66%**

20. The employer contribution rates calculated by the Actuary reflects two elements, the on going future service rate (the cost of future pensions) and the past service rate (to recover any deficit). In determining the specific employer contribution levels to the Fund the approved Funding Strategy is applied in setting the appropriate deficit recovery periods for each type of employer and any other mechanisms such as the stabilisation of employer contribution rates. In the case of the Council a 20 year deficit recovery period and stabilisation of employer contribution rates have been applied.

21. Table 3 illustrates the actuarial employer's contribution rate expressed as a percentage of pensionable pay for both the Fund as a whole and the Council. The past service element is based on a deficit recovery period of 20 years. As was the case with the increase in the overall deficit the decrease in real gilt yields has also increased the cost of providing for future pension benefits.

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Table 3 : LGPS Bedfordshire and CBC Theoretical Employer Contribution rates 2010 and 2013

	Fund	Fund	CBC	CBC
	31 March 2010 %	**31 March 2013 %**	**31 March 2010 %**	**31 March 2013 %**
Future Service Rate	13.9	17.6	14	17.5
Past Service	8.7	10.8	11.5	16.1
Total	**22.7**	**28.4**	**25.5**	**33.6**

23. Following the 2010 actuarial valuation a phased increase was applied to the Council's employer contribution rate resulting in a rate of 23.9% for 2013/14.

24. Following the 2013 valuation the Fund has been able to stabilise the Council's employer contribution rate with a 20 year deficit recovery period and this means that for the Council :

(a) the certified rate can be increased by 0.5% per annum,

(b) an initial contribution cap of 25% can be applied,

(c) that if the certified rate reduces in the future, the Council's actual rate can only reduce by 0.5% per annum, and

(d) the deficit recovery element must be paid by monthly instalments of a fixed amount.

25. The stabilised contribution rate applying for the Council over the next three years is set out in Table 4. For 2014/15 the future service rate is 14% and a total lump sum of £6.662m will be paid to the Bedfordshire Fund equating to a total employer contribution rate of 24.4%, an overall increase of 0.5% compared to 2013/14. By requiring fixed index linked payments in respect of the deficit recovery element will guarantee this level of contribution to the Fund. The use of a percentage rate for the deficit amount would risk generating a lower contribution if the future overall level of pensionable pay reduced.

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Table 4 CBC LGPS certified employer contributions from 2014/15				
Certified Rate	**Total Rate %**	**Future Service Rate %**	**Certified Lump Sum towards Deficit recovery £000**	**Monthly Lump sum towards Deficit recovery £**
2014/15	24.4	14.0	6,662	555,167
2015/16	24.9	14.0	7,212	601,000
2016/17	24.9	14.0	7,450	620,833

LGPS 2014

27. As part of the national public sector pensions reform programme a revised LGPS (England and Wales) was implemented from 1 April 2014. This new LGPS (2014) replaced the LGPS (2008) and all pensions in payment or that have been built up before April 2014 are protected. Pre April 2014 pensioners or leavers with deferred benefits are not affected. In cases of any contributing scheme members any pre April 2014 pension will still be based on final salary at retirement and the current normal pension age.

28. The main differences between the 2014 and 2008 schemes are

(a) Pensions will be based on Career Average Re valued (based on Consumer Price index) Earnings not a Final Salary basis.
(b) Pension benefits will accrue at 1/49th per annum not 1/60th.

(c) Pensionable pay will now include non-contractual overtime and additional hours for part time staff.
(d) The average employee contribution rate remains at 6.5% but the contribution rate bands have increased from 7 to 9 with the highest rate now 12.5% compared to 7.5% previously.
(e) Members now have the flexibility to pay 50% of contributions for 50% of benefits.
(f) Normal retirement age now follows an individual’s state retirement age and not 65.
(g) Leavers with less than 2 years membership can now receive a refund of contributions compared to 3 months in the previous scheme.

29. If in the future the costs of the LGPS change beyond certain limits still to be formalised, there will be negotiations between unions, employers and government about how to meet those cost changes.

30. Following a consultation on pensions for Councillors' in 2013, the Government has recently decided to end the entitlement for Councillors to join the LGPS. With effect from 1st April 2014, Councillors will be unable to join the pension scheme. Those already in the scheme will cease to be contributing members from the next time they face re-election. At that point they will become deferred members until they elect/are able to take their pension.

31. The recent changes to the LGPS have required significant effort by administering and employing authorities to communicate the changes and amend processes and systems.

INVESTMENT STRATEGY

32. The Fund's Statement of Investment Principles (SIP) sets out the investment strategy to be implemented through asset allocation and investment manager selection, The SIP is linked to the Fund's Funding Strategy Statement which sets out the Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Fund while not unnecessarily restraining the investment strategy and both documents are regularly reviewed and revised. The common objective of the Fund is to apply a risk based approach to maximise returns on investments in order to control the level of employers' contributions.

33. The Pensions Committee has approved an asset allocation which is set out in Table 5 and an overall Fund benchmark which is based on a weighted average of various performance indexes which are derived from investment indices or rates of inflation as set out in Table 6.

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Table 5 Fund Asset Allocation Benchmark (SIP 2013)

Asset Classes	**Benchmark**	**Allocation Range**
UK equities	19%	Range 38%- 58%
Global/Overseas equities	29%	
UK Gilts	4%	Range 13%-33%
Absolute Return Bonds	10%	
Corporate Bonds	4%	
Absolute Return Multi Asset	20%	Range 5%-17%
Property	10%	Range 5%-15%
Global Tactical Asset Allocation	4%	Range 0%-8%
Total	**100%**	

35.

Table 6 Investment Performance Benchmarks (SIP 2013)	
Asset Class	**Benchmark returns based on**
UK equities	FTSE All Share Index
Overseas equities	45% - FTSE America 35% - FTSE Developed Europe ex UK 15% - FTSE Japan 5% - FTSE Developed Pacific ex Japan
Global equities	RPI + 5% *(RPI Retail Prices Index)*
UK Gilts	42 % - FTSE A All Stocks Gilt Index 58 % - FTSE A Index-Linked Index (all stocks)
Absolute Return Bonds	LIBOR + 2% *(LIBOR – London Interbank Offer Rate*)
Corporate Bonds	Bank of America Merrill Lynch Sterling Non-Gilt Index
Absolute Return Multi Asset	RPI +5% (1 portfolio) LIBOR + 4% (1 portfolio)
Property	IPD Index *(IPD – Commercial Property Market index)*
Global Tactical Asset Allocation	RPI + 5%

36. The investment objective is subject to the strategy being carried out within acceptable levels of risk. Risk associated with investments is controlled through the diversification between asset classes and Investment Managers. The risk within each portfolio is monitored with the Managers. Benchmark risk is controlled by indexing a proportion of the Fund's assets to passively track appropriate indices. Benchmark risk is the risk that investments in a particular asset class (i.e. UK equities, overseas equities) do not match the broad market return on that asset class as represented by an appropriate index for that asset class. The Fund's investments and managers at 31 December 2013 are shown in Table 7.

37.

Table 7 Bedfordshire Fund Investment Managers and Asset values at 31 December 2013		
Managers (Asset class)	**31-Dec-13**	**Of Total**
	£M	**Fund**
Blackrock (Equities)	115.3	7.5%
Legal and General (Equities)	428.4	28.0%
Lazard (Global Equities)	155	10.1%
Trilogy (Global Equities)	68.2	4.5%
Total Equities	**766.9**	**50.1%**
Blackrock (Fixed Interest)	146.6	9.6%
Insight Investment (Fixed Interest)	132.7	8.7%
Total Bonds	**279.3**	**18.3%**
CBRE (Indirect Property)	131.9	8.6%
Baring (Multi Asset Absolute Return)	177.6	11.6%
Pyrford (Multi Asset Absolute Return)	92.3	6.0%
Total Multi Asset Absolute Return	**269.9**	**17.6%**
Cash	81.3	5.3%
Total Fund	**1,529.30**	**100%**

38. The Fund has implemented an investment strategy that seeks to provide less volatile returns than Funds with a greater equity weighting. In times when equity markets are very strong the Fund is likely to underperform the average local authority fund which tends to have greater allocations to equities. Conversely when equity markets are weak the Fund should outperform the average local authority fund. .The Fund benchmark return for the year ended 31 December 2013 was 10.6% and the actual return was 11.8% (after fees). The annualised Fund returns over three and five years ended 31 December 2013 were 6.3% and 8.9% compared to benchmark returns of 7.5% and 9.5%.

Conclusion

39. This is the first update to the Committee in respect of the LGPS arrangements and has briefly covered a large number of areas with the aim of providing some detailed background to the governance of the fund and important recent developments. It is proposed to focus future updates on developments in the LGPS and overall Fund performance.

Appendices:

None

Background Papers: (open to public inspection)

None