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## Local Government Pension Scheme Update

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### Purpose of this report

To provide an update on the governance of the Local Government Pension Scheme.

<b>RECOMMENDATION</b>
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That the Committee note the report.
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### Overview and Scrutiny Comments/Recommendations

1. This report is for information only and has not been made to any Overview and Scrutiny Committee. A report will be made to the Audit Committee reflecting the responsibility of that Committee to scrutinise financial performance and risk.

### Background

2. The Local Government Pension Scheme (LGPS) in England and Wales is a funded public sector pension scheme with approximately 4.6 million members.
3. 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 eighty nine funds across England and Wales.
4. The Bedfordshire Pension Fund is administered by Bedford Borough Council, which is responsible for the pensions of Local Government employees across Bedfordshire, including Luton Borough Council and Central Bedfordshire Council.
5. 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.

6. Currently in excess of 130 scheme employers participate in the Bedfordshire LGPS. The actual Bedfordshire scheme membership numbers at March 2013 and 2014 are shown in Table 1 overleaf. Following a number of years where active membership had declined the introduction of auto enrolment (whereby the default position for new employees is that they are included in the scheme and have to opt out if they do not wish to be included) has contributed to an increase in active members for the Fund as a whole.

<b>Table 1 LGPS Bedfordshire and CBC Membership at 31/3/13 and 31/3/14</b>				
	<b>Fund</b>	<b>Fund</b>	<b>CBC</b>	<b>CBC</b>
	<b>31 March 2013</b>	<b>31 March 2014</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
<b>Active</b>	17,442	18,766	3,975	4,025
<b>Deferred</b>	21,142	22,821	6,755	7,144
<b>Pensioners</b>	13,158	13,841	4,131	4,276
<b>Total</b>	<b>51,742</b>	<b>55,428</b>	<b>14,861</b>	<b>15,445</b>

7. The LGPS is administered within a statutory and best practice framework of regulation and governance. The various administering authorities apply important policies and strategies that are developed and reviewed with independent specialist advice and in consultation with participating employers. The main areas are governance arrangements, funding, investment and communication strategies, all of which can be accessed at the Bedfordshire Pension Fund website ([www.bedspensionfund.org](http://www.bedspensionfund.org)).
8. The purpose of this report is to update the Committee on any changes or proposed changes to the regulations and governance of the scheme that have arisen since the previous report to this Committee and provide information in respect of the latest reported investment performance of the Fund. This Committee resolved at the meeting on the 20 November 2014 that the next report on the LGPS should include commentary on the risk management of the scheme.

### **Governance and Regulatory Changes**

9. All LGPS Administering Authorities were required to establish Pension Boards from 1 April 2015. The purpose of a Pension Board is to assist the Pension Committee to secure compliance with regulations and to ensure the effective and efficient governance and administration of the LGPS. A Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. The membership of the Bedford Pension Board was appointed at the Bedford Borough Annual Council meeting on 20<sup>th</sup> May 2015:

**Scheme Employer Representatives – 2 vacancies**

Councillor Stephen Moon - Bedford Borough Council

Councillor James Jamieson - Central Bedfordshire Council

**Scheme Member Representatives – 1 vacancy**

Mr Stewart Briggs - Bedford Borough Council

Mr Cliff Anderson - GMB Union (Luton Branch)

Mr Liam McKeating - UNISON (Bedford Branch)

10. No officer or councillor of an Administering Authority who is responsible for the discharge of any function under the LGPS Regulations (apart from any function relating to Local Pension Boards or the Scheme Advisory Board) may be a member of a Local Pension Board. The first meeting of the Board is to be held on 25 June 2015.
11. The Central Bedfordshire Council meeting on 21<sup>st</sup> May 2015 approved the appointment to the Bedford Borough Council Pension Committee of Councillor Richard Wenham and Councillor Kevin Collins as respectively the voting member and substitute voting member.

**Fund Management**

12. The Fund has implemented an investment strategy and benchmark that seeks to provide less volatile returns compared to Funds with a greater weighting to equities. In periods when equity markets are very strong the Fund is likely to underperform the average local authority fund which tends to have greater allocation to equities. Conversely when equity markets are weak the Fund would be expected to outperform the average local authority fund.
13. At the Bedford Borough Council Pensions Committee meeting on 2 March 2015 the Fund Administrator reported on the Pension Fund Performance over the nine month period ending 31st December 2014. The market value of the Fund and cash holdings as at 31<sup>st</sup> December 2014 was £1,622.1 million (Table 2) reflecting an increase of £184 million since 31 March 2014. This positive performance had primarily derived from the equities asset class.

<b>Table 2 Bedfordshire Fund Investment Asset classes and values at 31 December 2014</b>			
<b>Asset class</b>	<b>31 Dec-14</b>	<b>31 Dec-14</b>	<b>Bench mark</b>
	<b>£M</b>	<b>%</b>	<b>%</b>
UK Equities	306.2	18.9	19
Overseas Equities	519.6	32.0	31
<b>Total Equities</b>	<b>825.8</b>	<b>50.9</b>	<b>50</b>
UK Gilts	71.0	4.4	
UK Index Linked Gilts	100.5	6.2	
Absolute return Bonds	134.5	8.3	
<b>Total Bonds</b>	<b>306</b>	<b>18.9</b>	<b>18</b>
Property – (Indirect))	156.9	9.7	10
Multi Asset Absolute Return	222.3	13.7	20
Cash	111.1	6.8	2
<b>Total Fund</b>	<b>1,622.1</b>	<b>100</b>	<b>100</b>

14. The Bedfordshire Pension Fund investment return for the quarter ending 1 December 2014 was 2.5% which was ahead of the benchmark return of 2.3% and behind the estimated WM Local Authority average of 3.1%. Over 12 months the Fund returned 7.1% in line with the benchmark. Over three years the Fund has returned 9.3% p.a. compared to a benchmark return of 8.5% p.a.
15. Following a change in the management arrangements for the Fund's allocation to Multi Asset Absolute Return portfolios a final allocation of £75 million was made to a new manager on 19 January 2015. The cash position above benchmark at 31 December 2014 reflects the timing of the final allocation to the additional Multi Asset Manager. The aim of Multi Asset Absolute Return portfolios is to achieve a return over the long term that exceeds inflation and cash but with a low level of volatility (risk). The managers prioritise capital preservation and are not constrained to specific asset classes and investment strategies.

## **Risk Management**

16. At the 20 November 2014 meeting of this Committee members asked to be provided with further information about the risk management of the Bedfordshire LGPS. Many of the Fund's policy documents, referred to at paragraph 7, deal with specific risks and their management. The Bedfordshire Funding Strategy Statement (revised February 2014) summarises four key risk areas:

- i. Financial
- ii. Demographic
- iii. Regulatory; and
- iv. Governance.

17. Appendix C of the Funding Strategy Statement (reproduced at Appendix A of this report) details the Scheme's key risks and the control mechanisms in place to manage those risks. To illustrate the Pension Committee's approach to risk management an explanation of the strategic and operational management of the Fund's significant asset pool is outlined below.

18. The Fund's Statement of Investment Principles (approved November 2014) sets out in detail the investment management arrangements. The Pension Committee has set the following long term objectives for the Fund which are to:

- (a) maintain a portfolio of secure and sufficiently liquid assets, which, together with new contributions from active members of the fund and employing bodies will generate sufficient income and capital growth to meet the cost of current and future benefits that the Fund provides;
- (b) minimise the long term costs of the Fund by maximising the return on the assets whilst having regard to the objectives shown under (a) above;
- (c) ensure that employer contributions rates are set at a level to attain and maintain solvency, as certified by the Fund's Actuary, whilst keeping the employer contribution rate as stable as possible.

19. To deliver the objectives the Pension Committee approve and keep under review a Strategic Asset Allocation (Table 3) for the Fund. The Strategic Asset Allocation decision is informed by detailed modelling of asset and liability forecasts conducted after the triennial Actuarial Valuation.

<b>Table 3 Strategic Asset Allocation</b>		
UK equities	19%	Range 40%- 60%
Global / Overseas Equities	31%	
UK Gilts	8%	Range 13%-23%
Absolute Return Bonds	10%	
Absolute Return Multi Asset	20%	Range 15%-25%
Property	10%	Range 5%-15%
Cash/Opportunistic	2%	Opportunistic Range 0%-4% Cash Range 0%-10%

20. An investment benchmark is determined for each asset class (Table 4) and the Fund's overall performance target is the weighted average of the asset allocation and the asset allocation performance index. The Fund's overall benchmark will

vary over time with the level of indices, interest rates and inflation. Over the three years ended 31 December 2014 the annualised Fund Benchmark was 8.5%.

<b>Table 4 – Asset Class Investment Benchmarks</b>	
<b>Asset Class</b>	<b>Investment Benchmarks</b>
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%*
UK Gilts	42 % - FTSE A All Stocks Gilt Index 58 % - FTSE A Index-Linked Index (all stocks)
Absolute Return Bonds	LIBID + 2%
Absolute Return Multi Asset	RPI +5% & 3 month LIBOR + 5% & 1 month LIBOR + 4%
Property	IPD Index

**Key**

IPD Investment Property Databank Ltd  
 FTSE Financial Times/ Stock Exchange  
 RPI Retail Price Index  
 LIBOR London Interbank Offer Rate  
 LIBID London Interbank Bid Rate

\* In the short term the MSCI All world index is also referred to.

21. The investment objectives are subject to the strategy being carried out within acceptable levels of risk:

- b. Risk associated with investments is controlled through the diversification between asset classes and Investment Managers. Monitoring of performance targets is intended to ensure that the Fund's investments are adequately diversified. In addition, the investment restrictions aim to ensure that, at a stock selection level, the Fund avoids undue concentration.
- c. The risk within each investment portfolio is monitored and managed by the Investment Managers. A detailed set of performance targets and restrictions are agreed with each Manager.
- d. Benchmark risk (e.g. the risk that the Fund's returns from UK equities do not match the Benchmark FTSE Index return) is controlled by allocating a proportion of the Fund's assets to portfolios managed to replicate index returns (passive management).

22. The strategic asset allocation is implemented through the appointment of specialist investment managers. The current management arrangements are set out in table 5 below.

<b>Table 5 - Bedfordshire Fund Investment Managers</b>		
<b>Manager</b>	<b>Asset Class</b>	<b>Performance Target</b>
BlackRock Advisers UK Ltd	Passive Equities and Bonds	To track appropriate benchmark indices as follows within a benchmark tolerance of +/-0.5%. - UK Equities – FTSE Actuaries All Share Index - Overseas Equities – FTSE America FTSE Europe ex UK FTSE Japan FTSE Pacific ex Japan MSCI Emerging Markets Index - UK Gilts – FTSE A All stocks Gilt Index - UK Index-Linked– FTSE A Index Linked Index (all stocks)
CBRE Global Investors	Indirect UK Property	0.5% p.a. above the AREF/IPD UK QPFI All Balanced Property Fund Index <sup>1</sup> , net of fees and costs, on a rolling three year basis.
Insight	Active Absolute return Bonds	50% LIBID + 2% 50% LIBID + 4%
Invesco Perpetual	Active Absolute Return Multi Asset	3 Month LIBOR +5%
Lazard Asset Management	Active Global Equities	To achieve a return of at least the benchmark return (net of fees) over rolling five-year periods. Performance Benchmark – RPI + 5%
Legal and General Investment Management	Passive Equities	To track the appropriate benchmark indices within a tolerance of +/-0.5%.
Newton	Active Absolute Return Multi Asset	1 Month LIBOR +4%
Pyrford	Active Absolute Return Multi Asset	RPI +5%
Trilogy Global Advisors	Active Global Equities	To achieve a return of at least the benchmark return (net of fees) over rolling seven-year periods. Performance Benchmark – RPI + 5%

23. The Fund's objectives are subject to formal annual review by the Pension Committee and triennial review following the completion of the actuarial valuation and review of the relative value of the assets and liabilities. Appropriate external advice is obtained from the appointed investment consultant, independent investment adviser and independent Actuary. Manager performance and overall asset allocations are monitored by officers on a monthly basis and quarterly by

the Pension Committee. The Committee, in conjunction with the Investment Consultant, will normally review on at least an annual basis the allocation of assets between the passive and specialist portfolios, property and other asset classes. The Investment Managers' appointments, whilst subject to monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.

24. The assets of the Fund are held by an independent custodian Northern Trust and the key advisory appointments are subject to regular review, specifically

- i. Actuary (Hymans Robertson) every 6 years
- ii. Independent Consultant (Hymans Robertson) every 5 years
- iii. Independent Investment Adviser (Leslie Robb) every 3 years

### **Council Priorities**

25. 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 that public sector pension schemes provide value for money. This objective is in line with the Council's own value for money priority.

### **Corporate Implications**

#### **Legal Implications**

26. There are no specific legal implications as this report is made for information purposes. The LGPS in England and Wales is operated in line with various regulations made by the Secretary of State for Communities and Local Government in exercise of the powers conferred by the Superannuation Act 1972 and the Public Service Pensions Act 2013.

#### **Financial Implications**

27. There are no specific financial implications as this report is made for information purposes. The most recent Bedfordshire LGPS triennial actuarial valuation at 31 March 2013 disclosed Central Bedfordshire Council's liability of £550m compared to assets of £361m. It is planned to address the funding deficit of £189m (36%) over a twenty year period whilst stabilising the overall employer's contribution rate. In the current financial year 2015/16, employer contributions of 14% of pensionable pay are paid to the Bedfordshire Fund (approximately £8m p.a. including schools non-teaching staff) along with an additional lump sum of £7.212m towards the funding deficit.

28. LGPS contributions are a significant proportion of the Council's overall employment costs and as such the governance and performance of the scheme merits regular monitoring by this Committee.

## **Equalities Implications**

29. There are no specific implications for equalities as this report is made for information purposes.

## **Conclusion**

30. Funded Index linked Final salary pension schemes have to address a wide range of risks. Given the importance of such pension arrangements to scheme members and employers, the governance requirements are significant. Since the Mirror Group pension scandal of 1991 regulation and best practice guidance has increased considerably in the private sector. The LGPS, since its inception in 1922, has differed from most public sector schemes as a fund of assets has been maintained to meet future pension obligations. The Bedfordshire LGPS, in common with similar schemes, has to manage the risks associated with both assets and liabilities.

31. Considerable governance documentation is available on the Bedfordshire Pension Fund website. The various strategies and policies outline in detail the ongoing management of the Fund as it responds to the wide range of challenges facing pension schemes. An updated Risk Register is available with the strategies and policies at the website link below.  
[http://www.bedspensionfund.org/fund\\_information/policies\\_and\\_documents.aspx](http://www.bedspensionfund.org/fund_information/policies_and_documents.aspx)

## **Appendices**

The following Appendix is attached:

Appendix A - Extract of Appendix C from Bedfordshire Pension Fund – Funding Strategy Statement – March 2014

## **Background Papers**

None