

Central Bedfordshire Council

Audit Committee

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Local Government Pension Scheme Update

Advising Officers:

Chief Finance Officer, Charles Warboys.
(charles.warboys@centralbedfordshire.gov.uk)

Ralph Gould, Head of Financial Control
(ralph.gould@centralbedfordshire.gov.uk)

Purpose of this report

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

RECOMMENDATION

The Committee is asked to:

1. Consider and comment upon the issues raised within the report.

Overview and Scrutiny Comments/Recommendations

1. This report is for information only and has not been made to any Overview and Scrutiny Committee. Due to the significant values of assets and liabilities and the importance of the LGPS to the Council this Committee receives regular reports on the governance and performance of the Local Government Pension Scheme.

Background

1. The Local Government Pension Scheme (LGPS) in England and Wales is a funded public sector pension scheme with approximately 5.1 million members. The scheme which currently holds some £217 Billion in assets is the largest funded scheme in the UK and the fifth largest in the world.
2. 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.

3. 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.
4. 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.
5. At 31 March 2015 there were 137 active and 24 inactive scheme employers participating in the Bedfordshire LGPS. The actual Bedfordshire scheme membership numbers at March 2013 and 2015 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.

Governance and Regulatory Changes

6. A LGPS update report to the January meeting of this Committee outlined the Government's plans for the creation of a number of pooled investment arrangements for LGPS assets. All administering authorities were invited to submit in February 2016 initial proposals for the creation of pooled asset management arrangements.
7. The BBC Pension Committee meeting on 3 February 2016, having considered various options given the developing proposals for up to eight pools, resolved to participate in the submission for the 'Border to Coast' proposed pool. This pool represents some thirteen Funds as set out in table 1 below.

Table 1 Border to Coast Pool Members	
Fund Name	Administering Authority (if applicable)
Bedfordshire Pension Fund	Bedford Borough Council
Cumbria Pension Fund	Cumbria County Council
Durham Pension Fund	Durham County Council
East Riding Pension Fund	
Lincolnshire Pension Fund	Lincolnshire County Council
North Yorkshire Pension Fund	North Yorkshire County Council
Northumberland Pension Fund	Northumberland County Council
South Yorkshire Pension Fund	
South Yorkshire Passenger Transport Pension Fund	
Surrey Pension Fund	Surrey County Council
Teesside Pension Fund	
Tyne and Wear	South Tyneside Borough Council
Warwickshire Pension Fund	Warwickshire County Council

8. The Border to Coast pool proposal was welcomed by the Minister for Local Government and members of the pool were invited to submit a detailed final proposal addressing governance and implementation by 15 July 2016. The Minister expects a Financial Conduct Authority regulated single entity with responsibility for selecting and contracting investment managers and the employment of staff. The pool members are currently developing a detailed submission. Whilst the entity, if implemented, will manage investments both internally and under contract with other managers, each participating Pension Fund will be responsible for its own strategic asset allocation.
9. A national LGPS Scheme advisory Board was constituted in February 2016 as previously a Shadow Board existed. The Board has two roles specifically to provide advice to LGPS scheme managers and pension boards in relation to the effective management and administration of the LGPS and its connected schemes, and to advise the Secretary of State for Communities and Local Government on the desirability of changes to the LGPS. The Board comprises various LGPS stakeholders representing employers, scheme members, advisors and observers.
10. The Board will have two sub committees; Cost management and Scheme Design and secondly Investment, Engagement and Governance. The Cost management and Scheme Design sub committee will have an important role as the results of the 2016 Actuarial valuations are assessed.

Valuation March 2016

11. Regulations require that every three years the Scheme Actuary conducts an actuarial valuation to determine the level of employers'

rates of contribution to the Fund. The next valuation date is 31st March 2016 and work on the valuation has commenced.

12. Key to the Fund's year end procedures and the 2016 valuation is the submission of data from each participating Employer, or payroll provider on behalf of the Employer. This data is required to be submitted by 30 April each year. Luton Borough Council were finally able to submit a file on 11 March 2016 which represented their data for 2014/2015 and which was accepted by Pensions Administration. However, there remains a number of queries to be resolved which will continue to need the 'buy in' of Luton Borough Council. Luton Borough Council has submitted their data for 2015/2016. In summary, across the Fund, only 60% of data was received on time although by 7th June 2016 it had all been received and checking is currently taking place. The Council's data, extracted from the in house payroll, was submitted within one week of the timetable date.
13. The draft results of the 2016 valuation, which are used to determine employer contribution rates applying from 1 April 2017, are expected to be available in the autumn. After the 2013 valuation contribution rates for secure long term employers, such as the Council, were stabilised at 25% of pensionable pay based on a twenty year deficit recovery plan. The 2016 valuation will check how the stabilisation approach has performed in respect of deficit repair.

Fund Management

14. The Fund has implemented an investment strategy and benchmark, linked to the Fund liabilities, that seeks to provide less volatile returns compared to Funds with a greater weighting to equities. At the Bedford Borough Council Pensions Committee meeting on 7th June 2016 the Fund Administrator reported on the Pension Fund Performance over the twelve month period ending 31st March 2016. The market value of the Fund and cash holdings as at 31st March 2016 was £1,727.4 million (Table 2) an increase of £39.2 million since 31 December 2015.

Table 2 Bedfordshire Fund Investment Asset classes and values at 31 March 2016			
Asset class	31 Mar-16	31 Mar-16	Bench mark
	£M	%	%
UK Equities	308.6	17.9	19
Overseas Equities	549.1	23.7	31
Total Equities	857.7	49.7	50
Government Bonds	61.5		
Index Linked Gilts	91.9		
Absolute return Bonds	161.9		
Total Bonds	315.13	18.3	18
Property – (Indirect))	189.4	10.9	10
Multi Asset Absolute Return	309.2	17.9	20
Cash	55.8	3.2	2
Total Fund	1,727.4	100	100

15. The Fund's overall investment benchmark is a mixture of absolute and market returns and the absolute returns vary by manager e.g RPI plus 5%, short term interest rates plus 4%. The managers invest in markets that can produce negative or flat returns and when this happens overall performance is likely to be negative relative to the specific benchmark. Over 12 months to 31 March 2016 the overall benchmark was 1.9% whereas many investment markets have declined. The Fund reported a 12 month return of -0.2% which compares with UK Equity market returns over the same period of - 3.9%.
16. Annualised 3 year returns were Benchmark 5.8%, Fund 5.2% and annualised 5 years returns were Benchmark 6.3% Fund 5.5%.
17. As Pension Funds have developed specific strategies and benchmarks linked to liabilities and deficit recovery plans the comparisons with other Funds has become less relevant. The company that maintained a Local Authority Universe return, State Street, has stopped recording a Local Authority Universe return. It is expected that alternative arrangements will be made as the measure does provide some value in understanding Fund performance.

Council Priorities

18. 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

19. 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 and Risk Implications

20. 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 last financial year 2015/16, employer contributions of 14% of pensionable pay were 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.
21. 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

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

Conclusion and next Steps

23. The LGPS continues to be subject to considerable change and the current focus relates to the management of investments. There is a significant challenge for the 89 LGPS Funds and their stakeholders to agree investment pooling options for implementation that meet the Government's criteria.

24. The Fund and its employers also continue to address the operational issues arising from the implementation of the 2014 scheme for LGPS benefits so that the 2016 actuarial valuation can be delivered in September

Appendices

None

Background Papers

None