

## **Central Bedfordshire Council**

**AUDIT COMMITTEE**

Thursday, 29 June 2017

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### **Local Government Pension Scheme Update**

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#### **Purpose of this report**

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

#### **RECOMMENDATIONS**

The Committee is asked to:

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

#### **Overview and Scrutiny Comments/Recommendations**

2. 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**

3. 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 invests almost £300 Billion in assets, is the largest funded scheme in the UK and the fifth largest in the world.
4. 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.
5. 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.

6. 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.
7. At 31 March 2017 there were 145 active and 26 inactive scheme employers participating in the Bedfordshire LGPS. The actual Bedfordshire scheme membership numbers at March 2016 and 2017 are shown in Table 1 below. 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.

	Fund 31 March 2016	Fund 31 March 2017	CBC 31 March 2016	CBC 31 March 2017
<b>Active</b>	20,428	21,140	4,753	4,763
<b>Deferred</b>	27,409	29,456	8,067	8,632
<b>Pensioners</b>	14,889	15,538	4,563	4,769
<b>Total</b>	<b>62,726</b>	<b>66,134</b>	<b>17,383</b>	<b>18,164</b>

### **Regulatory and Governance Changes**

8. The creation of pooled investment vehicles for the England and Wales LGPS is progressing and eight pools have submitted business plans to the government. The Border to Coast Pension Partnership Ltd (BCPP), of which the Bedfordshire Fund is a member, has now been registered with 12 shareholders reflecting the 12 participating Administering Authorities. Recruitment to Board and executive positions is underway and property in central Leeds is being procured for the new organisation. The initial transfer of assets to the new Pool is expected in 2019.
9. The recent General election has delayed the implementation of further public sector pension and exit payment reforms and at the time of writing it is not clear when the changes will be implemented.

## Fund Management

10. The Fund has implemented an investment strategy and benchmark, linked to the Funds' liabilities, that seeks to provide less volatile returns compared to those Funds with a greater weighting to equities. At the Bedford Borough Council Pensions Committee meeting on 27th June 2017 the Fund Administrator reported on the Pension Fund Performance to 31<sup>st</sup> March 2017. The market value of the Fund and at 31<sup>st</sup> March 2017 was £2,068 million (Table 2) an increase of £75m since 31 December 2017.

<b>Asset class</b>	<b>31 Mar-17</b>	<b>31 Mar-17</b>	<b>Benchmark</b>
	<b>£M</b>	<b>%</b>	<b>%</b>
UK Equities	186.0	9.0	9
Overseas and Global Equities	885.3	32.8	41
<b>Total Equities</b>	<b>1,071.3</b>	<b>42.8</b>	<b>50</b>
Government Bonds	65.7	3.2	
Index Linked Gilts	110.2	5.3	
Absolute return Bonds	174.9	8.5	
<b>Total Bonds</b>	<b>350.8</b>	<b>17.0</b>	<b>18</b>
Property – (Indirect))	188.7	9.1	10
Multi Asset Absolute Return	387.5	18.7	20
Cash	69.7	3.4	2
<b>Total Fund</b>	<b>2,068</b>	<b>100</b>	<b>100</b>

11. 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 and vice versa. Over 12 months to 31<sup>st</sup> March 2017 the overall benchmark was 10% and the strong equity market returns in recent months have resulted in a Fund investment return of 18.5%.

12. Annualised 3 year returns were; Benchmark 6.7%, Fund 9.4% and annualised 5 years returns were; Benchmark 7.3% Fund 8.6%.

## **Council Priorities**

13. 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**

14. 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**

15. 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 2016 disclosed Central Bedfordshire Council's liability of £639.4m (£550.3m 2013) compared to assets of £421.7m (£361.5m). It is planned to address the funding deficit of £217.6m (36%) over a twenty year period whilst stabilising the overall employer's contribution rate. In the last financial year 2016/17, employer contributions of £20m were paid to the Bedfordshire Fund which included a lump sum of £7.5m towards the funding deficit.
16. 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**

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

### **Conclusion and next Steps**

18. The LGPS continues to be subject to considerable change and the current focus relates to the changes in the management of investments. The Fund and its employers also continue to address the operational issues arising from the implementation of the 2014 scheme for LGPS benefits.

## **Appendices**

None

## **Background Papers**

None