

Conference highlights



PLSA Local Authority Conference – Cotswolds, 13 – 15 May 2019

There was plenty to discuss in the sunshine in the Cotswolds, as well as drama in the shape of some Extinction Rebellion protestors. We hope you find these notes, from the sessions that we were able to attend, useful.

Monday 13 May

The afternoon sessions were largely restricted to local authority representatives only.

We ran a learning zone session called “**Hot and Bothered? Getting to grips with climate change**”, presented by Catherine McFadyen (Head of LGPS Actuarial, Benefits and Governance) and William Marshall (Head of LGPS Investment Clients).

The key messages were:

- Our research suggests that local authorities generally have carbon management plans in place, but few have committees that are dedicated to tackling climate change
- The climate, economy and pension funds are inter-connected; what matters most is the speed of policy and market responses from Governments and Corporates.
- The impact of climate change affects both assets and liabilities in the LGPS, and the risk should be assessed when reviewing funding or investment strategies.
- We analysed three possible future climate scenarios, as outlined in Club Vita’s [Hot and Bothered?](#) paper, to assess how differing financial (such as GDP growth, inflation and interest rates) and demographic (member longevity) factors might affect longer term funding positions.
- Our analysis suggests that the impact on LGPS funding levels of a slow response to climate change could significantly reduce the likelihood of full funding, based on current contribution levels.
- **Key next step** - speak to your actuary and investment consultant about how to manage climate risk for your fund. We can provide bespoke analysis to our clients as part of the 2019 valuation process.

Tuesday 14 May

Plenary 1 – Chair’s welcome and introduction

Richard Butcher, Chair, PLSA

The Chair welcomed everybody to the conference and summarised the agenda.

Plenary 2 – View from Whitehall

Rishi Sunak MP, Minister for Local Government

- Expressed how impressed he was by the skills and commitment he has encountered from those in the LGPS, and then ran through the top priorities in his ministerial red box;
- Pooling: remains a priority and key to long term success, considerable savings already delivered (c£95m pa), all assets should be pooled except where there is a clear and regulated rationale, should be used to drive transparency of costs, minister’s team will be meeting all pools between now and summer.
- Climate change: the Minister was interrupted by climate change protestors from Extinction Rebellion objecting to LGPS investment in fossil fuels. The Minister responded that LGPS investment decisions are a matter for local funds and not central government.
- Fair deal consultation: proposals aim to strengthen pension protections of outsourced staff, consultation closed last month and Government is considering responses.
- Valuation cycle (MHCLG consultation): wants to avoid more funding risk, with new tools being proposed to allow funds to undertake interim valuations and give flexibility on managing an employer’s exit.
- Closing remarks noted that McCloud ruling could have wide ranging ramifications and needed deep thinking on how to deal with the change.

Plenary 3 - The floor to ceiling view

Jeff Houston, LGA; Cllr Roger Phillips, Chair, SAB; Mike Scanlon, GAD

- Roger thanked Denise Le Gal for her service with SAB and that the departure creates a vacancy. He outlined SAB’s work plan including good governance, RI guidance, Fair Deal, academies and the third tier project.
- He discussed the Code of Transparency - launched May 2017, with 17 investment managers now signed up, and a compliance and reporting system procurement underway. Highlights were shared from the [2018 Scheme report](#) - membership up 3.4% to 5.8 million, almost 15,000 employers, £5bn cashflow positive, total assets = £275bn. He made a plea for funds to pay invoiced levies or be “named and shamed” in next year’s presentation!
- Mike discussed the 2019 valuation, ceilings, floors and the cost cap. Due to cost cap, the proposed benefit improvements of 0.9% of pay (paused due to McCloud ruling) were significantly lower than other public sector schemes. McCloud impact on LGPS might be 0.5 to 1% of liabilities. On 2019 valuation, returns have been good but the future outlook may be lower, and recent mortality experience needs to be allowed for.
- Jeff discussed the valuation cycle and £95k exit payment consultations. On the latter, it is not just “fat cats” affected e.g. someone earning £35k and with 30 years membership could see their pension reduced on redundancy. Any exit cap amendments should allow members who are made redundant & aged 55 or over to delay payment of their pensions (which current regulations don’t allow for).

Stream Sessions 1

Governance and Administration stream - Valuations fit 4 the future

Paul Middleman, Mercer; Simon Taylor, West Midlands

- Paul discussed the valuation cycle consultation. The timescale is important – the valuation triggers funds to think about how they manage risk and how funding, investment and covenant interact. Changing timescales changes the governance around risk management.
- In the transition period, there are options for consideration: whether to carry out a valuation three years from now, then 2 years from now or have a 5 year period until the next valuation in order to align the valuation dates with the other public sector schemes. Paul noted that this is a critical decision.
- Simon discussed his approach on covenant monitoring encouraging proportionality, education and working with stakeholders. He stressed that you can't wait four years to consider and monitor employer covenant.

New Horizons stream - Strengthening pension protection – understanding the new Fair Deal amendments

Annemarie Allen, Barnett Waddingham; Con Hargrave, MHCLG; Glyn Jenkins, UNISON

- DfE and MHCLG will publish guidance (which has some legal standing) while SAB will publish guidance only.
- The consultation yielded 79 responses of which 35 were funds, 9 employers, 7 contractors and the rest a mixture of other public bodies, advisory firms, unions and individuals.
- Most saw the proposed deemed employer route as positive but would like to see more detail about how it will work in reality, and wanted the admission body route retained but suggested that there should be a default option. Many sought clarity on the definition of wholly or mainly employed in the draft regulations.

Plenary 4: Refining the LGPS – LA relationship

Bob Holloway, LGA; Catherine McFadyen, Hymans Robertson

- Bob clarified that the 'Good Governance project is not a separation project, it *is* about good governance, and is not a criticism of current structures or 151 officers and their roles.
- The project team is considering options that fall broadly into two categories. The first is a solution that sits within existing local authority structures and law. The second goes further and considers new governance structures but which still rely on local authority frameworks.
- The project team is engaging with as many stakeholders as possible to make sure any outcomes are evidence based. SAB will then evaluate options and make any recommendations to the Minister.
- Catherine provided a summary of the project approach. It is clear that there are many different governance structures in the LGPS, so one size won't fit all – should any proposals be outcome based? The [survey](#) is open to all and available on the Hymans Robertson website.

Stream Sessions 2

Governance and Administration stream - Uniting diverse perspectives - Local Authorities in action

Sean Collins, Oxfordshire; Cllr John Horner, Warwickshire; Emelda Nicholroy, University and Colleges Employers Association

- The panel discussed ways in which funds can engage the diverse range of LGPS employers. To engage employees, funds must first engage employers.
- There are similarities between LGPS funds and employers in the higher education sector. Universities often have experience of investing their own long-term endowments and are themselves engaging with ESG and governance issues.
- The challenges of an increasing employer base include; lack of knowledge in some employers, numerous payroll systems, different employer profiles. A standardised approach is no longer appropriate – consider multi investment strategies.

Plenary 5 - Understanding the local impact of global events

Sabina Kalyan, CBRE Global Investors

- Sabina spoke about how geopolitical uncertainty impacts on asset prices. She mentioned bubbles in markets -if the natural correction of a bust is prevented because it is politically and socially unacceptable, then the bubble must move elsewhere.
- Cheap debt for the last decade means we have all ridden the tidal wave of rising asset prices. ESG issues were discussed – these are being taken seriously by real estate asset managers and it's important for the cost of bringing property up to environmental standards to be underwritten properly.

Plenary 6 - This House believes the LGPS should be required to build social housing and infrastructure for the good of the nation

William Bourne, Independent adviser (against the motion); Ted Frith, GLIL Infrastructure (for the motion)

- Session was led by Debate Mate which started as a charitable organisation ten years ago, teaching young people all the skills required in debating and delivered in an innovative way by a group of students who until a few weeks ago didn't know anything about the subject..
- The debate was interactive and the audience engaged positively. In the end the motion was not carried.

Wednesday 15 May

Plenary 7 - TPR and the LGPS: strengthening ties

Fiona Frobisher, The Pensions Regulator

- Fiona's theme was about how the Regulator and the LGPS can work together effectively.
- Scheme funding is out of TPR's scope and clearly the responsibility of HMT and Government. However good governance does apply across the board. TPR has no remit on investment strategy but how decisions are made are within its remit.
- Key areas of mutual responsibilities are protecting member benefits, ensuring schemes are well run, promoting good governance and considering savers needs. TPR's "clearer, quicker, tougher" message is about setting clear expectations, identifying risk early, driving compliance through supervision and enforcement and working with others (such as regulatory partners, stakeholders, advisers and intermediaries).
- TPR engaged with ten LGPS funds in 2017/18 - challenges found were resources, record keeping and managing relationships. The findings paper will be issued in June.

Plenary 8 - Investment pool governance – effective boards and committees***Ronald Graham, Chair at Derbyshire; Fiona Miller, Border to Coast; Andrew Reid, Chair at Suffolk and ACCESS***

- Andrew discussed the ACCESS governance model. The constituent funds identified similar characteristics and all are committed to democratic accountability.
- All ACCESS funds use external managers and the funds retain control of asset allocation. The Joint Committee comprises representatives from all the funds and the relationships between them are set out in an Inter Authority Agreement. The ACCESS model allows the funds to purchase the operator at a future date.
- Fiona noted that there are 8 pools and 5 very different models. This flexibility is a positive thing and it reflects the differences between the funds.
- Border to Coast is collaborative when it comes to product design. The sub funds must be right for the ceding funds and be sustainable throughout the cycle. These are big investments that cannot be switched off quickly.
- Ronald discussed the perspective of the pension board. The Board is a strange beast with lots of duties but no powers.
- The mention of pension boards in the recent pooling guidance consultation is to be welcomed. Boards should be represented in pooling governance structures (observer status is sufficient).

Plenary 10 - What's the big deal about big data?***Timandra Harkness, Science Writer, Broadcaster and Comedian***

- From tally marks scratched on a 30,000 year old wolf bone to the latest in artificial intelligence Timandra showed how data can make probability based projections.
- Big data combines different large data sources and allows you to spot trends and patterns that may never have been thought of when the data was originally collected.
- But big data can't predict the future and we need to be aware that there is always something missing from our data.

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