

Conference highlights

PLSA Local Authority Conference (Cotswolds) 13-15 June 2022



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The lovely June weather allowed delegates to shine a light on diverse topics such as the work of the SAB, PLSA's new research project, investing in inflationary times, climate risk, governance, administration, pooling and more.

Do get in touch if there is something here which you would like to discuss in more detail.

Conference welcome

Emma Douglas, Chair, PLSA

Emma welcomed everyone to the conference (in person) and introduced the conference theme of local government, global impact. She reminded everyone of the size of the LGPS - £300bn+ assets, 7 million members, 17,000 employers - and listed the many topics of interest to be covered over the next 2 days.

The England & Wales Scheme Advisory Board Annual Report 2021

John Bayliss, Government Actuary's Department; Joanne Donnelly, Local Government Association; Roger Phillips, England and Wales Scheme Advisory Board; Emma Douglas, Chair, PLSA

Cllr Phillips addressed the 2020/21 [annual scheme report](#) firstly by reminding everyone of the success in delivering the LGPS from home during the COVID pandemic.

Key statistics from annual report

- Assets £342bn (+24%)
- Net return on investment +21%
- Scheme maintained a positive cash-flow
- Membership grew by 1.1% - 6.23m members, including 1.8m pensioners
- Covid impacted life expectancy with a drop of 0.9 and 0.5 years (M&F) respectively according to the life expectancy index provided by Club Vita
- Management charges increased to £196m up 12.5% mainly reflecting the increase in assets

Cllr Philips asked that people take the annual report to committee and board to give perspective on the wider scheme. He shared frankly his disappointment in the delay on TCFD regs and missing the opportunity that COP 26 provided on this issue. He noted that the scheme is in the public eye and receiving FOI requests and we need the reporting mechanism to share the good narrative on that.

He also remarked

- that pooling is here to stay and we need to continue to make progress
- On levelling up, he thinks the LGPS need to meet that challenge and consider how, as the 8th largest scheme in the world, we use our weight when it comes to infrastructure
- On the 31 March 2022 funding valuations, we are in a good place as at 31 March 2022 but there are real concerns about rising inflation and also the national living wage implications for the scheme
- On Good Governance, his view is that it's vital to the reputation and integrity of the scheme. The department has allocated resource to progress guidance; he commends the funds who have already taken forward recommendations and strongly encourages others to do the same
- He also acknowledged the very real resource challenges that funds are facing, commenting that our economy currently has more jobs than people.

John Bayliss commented on the good health of the scheme from a Section 13 perspective.

Joanne Donnelly also addressed the report, highlighting the impact of increasing scheme maturity on cashflows, and her concerns that high inflation and increases in the cost of living may lead to member opt-outs. She emphasised the importance of strong communications about the value of the scheme and the role of TU/employee representatives in supporting that message.

The panel were asked a question about [Guy Opperman's interview in the Times](#) over the weekend where he spoke negatively about defined benefit schemes in the public sector. Joanne Kennedy responded that the remit for public sector pension costs sits with HMT, and they have not indicated any change of policy or readiness to fundamentally change the structure of public service pensions.

You ask – we deliver: Presenting our new LGPS project

Robert Branagh, PLSA Local Authority Committee; Rachel Brothwood, West Midlands Pension Fund; Euan Miller, Greater Manchester Pension Fund; Jo Quarterman, Norfolk Pension Fund; Tiffany Tsang, PLSA

This session launched PLSA research project – [The LGPS - Today's challenges, Tomorrow's opportunities](#) - explaining that the purpose of the report was to identify risks and opportunities and address them proactively. The project had been an interactive process incorporating the views of 60+ funds, and addressed 4 key themes, with both issues and recommendations.

- [Regulatory & operational environment](#) (Robert)
- Issues identified were no single champion, oversight by many different bodies, unclear hierarchy of regulation, and localisation in the application of change leading to increased risk
- [LGPS employers](#) (Euan)
- Issues identified were the proliferation of employers and that it is increasingly challenging for employers to adhere to requirements set by funds. Prospective employers don't always understand their responsibilities and their potential costs and risks before entry to the scheme
- 88% of respondents had seen employers want to leave for affordability reasons
- Employers can at times fail to fully appreciate the value of the scheme to them as employers

- LGPS scheme members (Jo)
- Jo noted that the scheme is terribly complex for members and that we need to use all channels and all tools available to maximise member understanding and engagement
- Operational sustainability (Rachel)
- Rachel referred again to the difficult recruitment and retention environment, and focused on a need for greater investment and innovation from system providers to improve efficiency and productivity.

Investing for a new regime

Jamie Dannhauser & Jos North, Ruffer; Matt Hopson, Tri-Borough/Westminster City Council; Tiffany Tsang, PLSA

- Jamie provided a macro-overview of a new “regime” of higher and more volatile inflation, suggesting we will need to take a different approach to how we built portfolios. Jamie discussed the 1970’s and high inflation rates addressed by US Fed Chair, Volcker and the hawkish central banks to the current climate, calling out a potential lack of political will to take harsh action
- Jamie argued that the most pressing concern for markets is not inflation but recession, possibly arising in 12-18 months. In the short term it is right to focus on the risk of recession, but keep an eye on the longer term risk that policy makers move too quickly when things are positive rather than keeping the brakes on inflation
- Jos suggested that the environment is changing with a new set of risks to consider when building a robust portfolio by:
 - 1 Finding inflation protection in your portfolio because system is more inflationary prone.
 - 2 Using unconventional offsets
 - 3 Being active – in a more volatile world, need to make quicker decisions and move portfolio around more. Opportunities will be more short term
- Matt considered the impact of inflation risk on the LGPS, discussing the potential that prolonged inflation could mean a jump in liabilities post-CARE. He spoke about looking to diversify real assets in the portfolio to provide inflation protection, with reference to ground rents, long lease, and infrastructure (conventional and renewable).
- In the panel discussion, one of the key themes was ensuring investment committees are set up to make fast decisions in response to changing markets – such as taking advantage of state sponsored climate opportunities.

Evaluating your fund’s physical climate risk

Julie Delongchamp, Wellington; Marion Maloney, Environment Agency; Joe Dabrowski, PLSA

- Julie and Marion were encouraging funds to make sure the physical risks arising from climate change are incorporated into investment decision making.
- In a sobering session they noted that almost regardless of current plans to reduce carbon emissions, a 1.5 degree temperature rise is forecast by 2028. An average surface temperature rise of this amount will lead to much higher rises in Asia (2 degree plus), and physical events are already manifesting in some areas.
- Most of the investments in response to climate risk are in climate solutions to reduce emissions, rather than adaptations to living at a higher temperature.
- They provided a simple framework for considering these risks, and then also highlighted opportunities in some sectors. For example, substantial capital deployment is needed to meet physical adaption challenges including building resilience in infrastructure, drainage, flood defence, dredging, water efficiency, and cooling.

- They finished by emphasising that while we must reduce emissions, funds' investment decisions should consider physical risks, opportunities and adaptations to warmer climate.

Complying with TCFD for pensions requirements in the LGPS

Tom Harrington, Greater Manchester Pension Fund (GMPF), Nick Stone, Pinsent Masons, Joe Dabrowski, PLSA

- DLUHC planning to produce comment in the Autumn consultation addressing how the LGPS will approach TCFD (Taskforce for Climate Related Financial Disclosures). The intention is to mirror much of the DWP regulation in place for private sector, although it's anticipated that all LGPS funds will be included regardless of size, and that a slightly different approach will be taken to level of knowledge and understanding of committees compared to trustees.
- Tom provided some insight on how GMPF approaches TCFD and highlighted some of the implementation challenges. GMPF have been providing voluntary TCFD disclosures for five years and are supportive of mandatory climate risk disclosure.
- He noted some of the challenges and opportunities in this area which include choosing metrics, handling LGPS pooled and non-pooled assets, re-baselining targets as asset allocations change, communications, data quality, scopes, the challenges of achieving the same level of data for all asset classes, timeline for implementation (need notice) and the need for consistency across regulators.
- Nick brought his legal perspective, based on implementing TCFD in the private sector. The regime is now in place within private sector with more (smaller) schemes coming into scope soon. He highlighted that TCFD does not tell you where to invest, but instead guides decisions to be better informed and to embed climate considerations within your investment management and governance.
- He noted that metrics, targets and data availability are all current challenges. Private sector guidance suggests that you are not expected to have all the data but are obliged to try, explain what is missing and perform gap analysis.
- On communications, he noted the report needs a plain English summary and that the whole report needs to be accessible for members.

The life-changing magic of tidying up.... Governance

Susan Black, Hymans Robertson; Geoff Cleak, Bath & NE Somerset Council; Joe Dabrowski, PLSA

- On joining the LGPS community Susan had two observations on governance:
 1. The basics were all there and the recommendations were about evolution rather than revolution;
 2. This was an evolution which was being led by the LGPS rather than imposed upon them.
- Inspired by international tidying guru Marie Kondo, 6 rules to tidy up governance were proposed by Susan and Geoff:
 - 1 Commit yourself to improving governance
 - 2 Imagine the future with effective governance
 - 3 Finish the tasks you have before you start others
 - 4 Set out an order to tidy
 - 5 Stick to the order
 - 6 Does it spark joy?

- Susan discussed the commitment already made in the Good Governance Project and some of the steps identified which allow us to imagine a future with effective governance. Examples include having a robust conflict management policy, an enhanced governance compliance statement, an effective representation policy for members and employers, and a plan for training.
- Geoff explored the Avon experience of steps 3 to 5, emphasising the need to stick to a plan, recognise and pull together existing best practice, and bring the committee and board along with you (for example combining training sessions). Avon sought Hymans Robertson guidance and assessment of their preparedness for anticipated regulation: confirmation that they were in excellent shape certainly sparked joy!
- As with all good tidying jobs, Avon recognise that there is always more to do to Keep The LGPS Tidy.

Debate: Is the Local Government Pension Scheme sustainable?

Emma Douglas, Chair, PLSA; James Waterfield, Debate Mate; Robert Branagh, PLSA Local Authority Committee; Euan Miller, Greater Manchester Pension Fund

- DebateMate is a charity looking to improve social mobility by encouraging young adults in deprived areas to take part in developing debating skills
- In this session, two teams of three (2 young adults and an LGPS expert) debated whether the LGPS is sustainable
- The debate consisted of opening arguments, facts and observations by the experts, challenging questions from the audience, and closing arguments
- The opposition argued the cost of the scheme as well as its complexity mean at least in its current form it is not sustainable
- The proposition argued the benefits provided are very good value for money (for both members and employer), provide a lifeline in retirement to what are often the lowest paid public servants, and eschewed the tax-payer backed nature of the scheme
- Ultimately, the audience vote agreed the LGPS is sustainable.

What to expect when you're implementing: The McCloud judgement

John Bayliss, Government Actuary's Department; Lorraine Bennett, Local Government Association; Heather Chambers, Tyne and Wear Pension Fund; Melanie Durrant, Barnet Waddingham; Joe Dabrowski, PLSA

- Lorraine provided an overview of the scheme reforms giving rise to the McCloud judgement. DLUHC are responsible for setting the LGPS regulations and we anticipate regulations will take effect from 2023 but with retrospective effect.
- John discussed the analysis of those impacted by McCloud and the anticipated increase in costs to the scheme. Following GAD's Section 13 Review, they are working with actuarial colleagues to ensure McCloud is treated consistently in 2022 England and Wales valuations.
- John also discussed the cost cap mechanism: GAD expect less chance of a cost cap breach from the 2020 analysis, although numbers are still being worked on.
- Heather discussed the challenges of implementing McCloud. In particular funds need to engage with employers to obtain historic data which is a challenge as data may not be available. There is a need for guidance to deal with cases where there are data gaps. In addition to data challenges there are resource concerns given the volume of calculation work needed to apply the McCloud remedy retrospectively. Funds have made plans to automate and also to secure additional resources, however these have been hampered by the labour market.
- Melanie discussed impacts on the current England and Wales valuations. The ongoing 2022 valuations can make a clearer estimate of the McCloud impacts.

- The panel discussion related to member communications, and the need to reassure members and to manage expectations. Clear communications will be needed and the LGA plan to provide materials when regulations are available.

Driving the pensions dashboards for the LGPS

Richard Smith, PLSA; Chris Curry, Money and Pensions Service (MPS); John Burns PLSA Local Authority Committee; Rachel Brothwood, West Midlands Pension Fund

- Richard provided a background to the dashboard initiative, explaining the interactions between the funds and central digital architecture. He also covered the ways in which members can access the system and how data is made available to them. The call to action was to visit moneyhub.com and use the products menu to see how an example dashboard might work.
- Chris covered a delivery update. The programme is still using the same plan as set in October 2020 and keeping pace. Currently it is in develop and test phase, expecting to move to staged onboarding next year which will be a key learning phase before wider onboarding. Testing to the architecture was successfully completed and next year schemes will begin to connect.
- Important next stages will include receipt of DWP Regulations and the Design Standards which MPS will be responsible for. The Design Standards, which will be out for consultation in July, will set out how funds will connect and will be of real technical value. Chris emphasised that this whole project is for consumer benefit and so consumer research and user testing are constantly part of the programme.
- There is also work to consider any risks associated with dashboard, such as scams. Chris encouraged delegates to register for the programme newsletter and check out the website.
- LGPS funds face two key administration challenges – data improvement and connection to the dashboard.
- Funds will need to procure an integrated service provider and be aware that detailed technical specifications will be needed. The complexity of data flows should not be underestimated and neither should the challenge of data cleansing.
- Benefits of the dashboard include free national engagement and publicity tool! Member queries should be a welcome opportunity to improve data quality.

The future of LGPS asset pooling

Teresa Clay, Department for Levelling Up, Housing & Communities (DLUHC); Sian Kunert, East Sussex Pension Fund; Mike O'Donnell, London CIV; Tiffany Tsang, PLSA

- Teresa looked at where the LGPS is now, five years into a fifteen year programme, with most assets pooled, in a transition plan or passively invested. There have been substantial benefits including creating capacity, developing expertise on areas such as responsible investment, and reducing cost. She also highlighted the significant investment in UK and global infrastructure, and the increased diversification of assets which also reduces risk.
- There is a need to consult on the wider ambition not just to keep up with private pension schemes but to make sure the LGPS fully punches above its weight, and this is the backdrop to the DLUHC proposals being consulted in the autumn:

- 1 Requirements on management and reporting of climate risks largely in line with the TCFD regime in place within the private sector
 - 2 Accelerated progress on transition of assets into the pools is desirable. There is consideration being given to a timetable for public market assets.
 - 3 Strengthened requirement on training and expertise, including the requirement to have a policy on training, and transparency in annual reports on what training has actually been undertaken
 - 4 Further transparency in annual reports in relation to pooling and investment strategies, as a recent review by DLUHC suggested little comment on progress with implementation of pooling
 - 5 New scheme level reporting to include improved metrics on pooling progress and climate risks
 - 6 Setting direction for greater scale and collaboration. For example, ideas on how to achieve aggregation at low cost are welcome.
- Mike believes that good progress has been made with pooling but that we need to go further faster. He is looking forward to a brave new Framework from DLUHC and wants to see the SAB lead the charge. Mike believes that there needs to be more consolidation and collaboration at fund and pool level.
 - Sian recognised that pooling has been a difficult journey, however a lot has been achieved with benefits now being seen. Sian cautioned the need to remember that every fund and every pool is different. Pool sub-funds have been designed to meet the needs of the particular funds, and keeping flexibility in structure is desirable.

Opinions, attitudes and values – what is changing, and what is staying the same

Ben Page, Ipsos Mori; Emma Douglas, Chair PLSA

- A good explanation of research and polling, where Ben called out some basic lessons around the difference between our perception of change, the reality of change, and our woeful ability to predict the future
- Emma asked if we are at the 'hinge of change' given the political, financial and technical headlines we see, but Ben's advice was that we are too close to events to tell. One reassuring lesson was that since 2014 the same percentage of people have thought their county has been heading in the wrong direction, and that our country's systemic nostalgic bias means that we are really just yearning for a past that did not exist anyway, so bring on the future!

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