
Decision Maker: Pensions Investment Sub-Committee

Date: 23 September 2015

Decision Type: Non-Urgent Non-Executive Non-Key

Title: GENERAL UPDATE

Contact Officer: Peter Turner, Director of Finance,
Tel: 020 8313 4668 E-mail: peter.turner@bromley.gov.uk

Chief Officer: Director of Finance

Ward: All

1. Reason for report

This report provides a general update to Members on various matters and changes which will in some cases impact on the Pension Fund.

2. RECOMMENDATIONS

2.1 The Sub-Committee is asked to note the report.

2.2 The Sub-Committee is asked to consider whether the opportunity identified as Appendix 1 in Part II of the agenda should be progressed further.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: No cost
 2. Ongoing costs: Recurring cost. Total administration costs estimated at £3.3m (includes fund manager/actuary fees, Liberata charge and officer time)
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £36.6m expenditure (pensions, lump sums, etc); £41.5m income (contributions, investment income, etc); £710.9m total fund value at 30th June 2015)
 5. Source of funding: Contributions to Pension Fund
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Staff

1. Number of staff (current and additional): 0.4 FTE
 2. If from existing staff resources, number of staff hours: c 14 hours per week
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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013
 2. Call-in: Call-in is not applicable.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,769 current employees; 4,992 pensioners; 5,111 deferred pensioners as at 30th June 2015
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Pooling of Investments

3.1.1 The Chancellor's Summer Budget announced on 8th July 2015 included the following message:

"The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments."

3.1.2 For London, the Treasury appear to see this approach as building on the work already done by the London CIV. The London CIV (Collective Investment Vehicle) has current membership of 30 out of 33 London boroughs.

3.1.3 Since the announcement the Government have indicated that they wish to see all assets (including equities and bonds) pooled within three years with more time required for unlisted assets. The expectation is that the 89 Local Government Pension Scheme Administering Authorities (assets over £190bn) will pool scheme assets into 8 or less investment pools. Each pooled fund would have a significant size of say £30bn. The Government appear open minded, at this stage, about whether the pools would be actively or passively managed or whether there would be a mix of both.

3.1.4 Department of Communities and Local Government (DCLG) are expected to produce criteria for pooling with latest indications referring to size, cost savings and improved governance. The criteria are expected to be published shortly.

3.1.5 DCLG is expected to publish a paper in November that will include:

- Legislative changes required to give Secretary of State increased powers;
- Proposed changes to investment regulations;
- Criteria to determine pooling of investments;
- Back stop measures which will form part of legislation to ensure that the Government "common criteria" for pooling can be forced on non complying schemes.

3.1.6 The Government is expected to formally consult and to invite authorities to indicate by February 2016 how they intend to pool assets to fulfil the criteria yet to be published.

3.1.7 For Bromley, the pooling options may not necessarily be on a geographical basis (yet to be determined) and there may be the options of a 'pick and mix' to enable the use of various pooled schemes depending on which one attracts the biggest discount on managers fees for the different fund managers - the Council has 3 fund managers for Global Equities (Blackrock, MFS and Baillie Gifford), 2 fund managers for Diversified Growth Fund

(Standard Life and Baillie Gifford) and 2 fund managers for fixed income (Baillie Gifford and Fidelity). A total of 5 different fund management organisations.

- 3.1.8 Members have previously expressed concerns about the risks of pooled funds evolving towards external control of the asset allocation strategy. The current proposals continue to allow the asset allocation control to be retained by the administering authorities who would implement the strategy using a mix of the pooled fund operators to enable reductions in management fees through economies of scale, whilst retaining the choice of fund managers.
- 3.1.9 It is still unclear how administering authorities would be required to pool investments until the pooling criteria are published. This may also provide clarity on whether local authorities would be required to use one pool, or a more “mixed economy” approach. A “mixed economy” approach may enable greater economies of scale if individual pooled funds are limited to just a few fund managers. Some coordination nationally would be required to ensure any reductions in fees can be maximised. The question remains on the extent that the pooled investments would be geographical or asset-class based although asset class based vehicles should provide greater scope to reduce management fees if the organisational costs are kept to a minimum.
- 3.1.10 Based on the above proposals, Council’s will still retain decisions on asset allocation, with the help of their advisers and funding responsibilities for current and past deficit contributions would remain.
- 3.1.11 There was consideration by the previous coalition Government to mandate passive investment rather than active investment and establishing a limited number of collective investment vehicles. Bromley responded as part of the consultation. The approach to pooling investments is being clarified by the new Government but it is not clear whether the matter of passive and active management would be revisited by the new Government in the future.

3.2 State Pension Reforms and Cost of Removal of Contracted-Out National Insurance

- 3.2.1 Reforms to the state pension from 2016/17 which include a flat-rate state pension, will result in the removal of the rebate to reflect contracted out national insurance where staff receive a workplace pension scheme (effectively opting out of earnings related elements of the state pension scheme). This will result in additional costs to an employee and the employer. It is estimated that this will increase Bromley’s employment costs by £1.3m per annum from 2016/17. Although local authority organisations have asked the Government to fund the additional costs to local authorities in the 2016/17 Local Government Financial Settlement the response, according to the LGA had “not been encouraging”. The additional costs are reflected in the Council’s financial forecast.
- 3.2.2 There is also expected to be further pension administration costs, which cannot be quantified at this stage, relating to reconciliation of records with those held by HMRC to reflect these changes.

3.3 Local Pensions Board

- 3.3.1 The Board met on 27th July and, given the significant amount of work they felt was needed, agreed that they needed more than one meeting a year and should meet to correspond with

the frequency of the meetings of Pensions Investment Sub-Committee. Prior to any further consideration, which may include a review of the terms of reference, the Board will be asked to provide a robust work plan recognising that special meetings can be called on an adhoc basis where the Board feels they are necessary. The Board is due to meet on 26th October 2015, when this matter will be considered further. Any changes on frequency of meetings, subject to consideration of a work plan, will initially need to be considered by the Director of Finance in consultation with the Chairman of Pensions Investment Sub-Committee and the Chairman of General Purposes and Licensing Committee and if necessary will need to be reported back to Council for consideration.

3.4 Combined Local Pension Board

- 3.4.1 Where an Administering Authority discharges its functions through an existing Committee it can, with the approval of the Secretary of State and subject to such conditions as the Secretary of State determines, combine the Local Pension Board with the Committee. However, in establishing a Combined Board, the Regulations require that an equal number of employer and member representatives be designated with a minimum requirement of four (two employer and two member representatives).
- 3.4.2 Members previously agreed that the Director of Finance, in consultation with the Chairman of Pensions Investment Sub-Committee and the Chairman of General Purposes and Licensing Committee, be authorised to make an application to the Secretary of State should it be determined that a Combined Board would provide a suitable alternative arrangement and subject to any conditions that may be applied. Further enquiries have been made with DCLG and it is apparent that no formal criteria or guidance will be issued at this stage. Some informal guidance has been received which sets out the details required but this provides little in the way of guidance and does not set out any specific criteria that will apply. The latest information received indicates that a Combined Board would not provide a suitable alternative arrangement at the present time. The final position will be considered by the Chairman of General Purposes and Licensing Committee and the Chairman of Pensions Investment Sub-Committee

3.5 Members Pension Seminar

- 3.5.1 The next seminar will be held on Wednesday 11th November 2015 which will start at 7.30pm. It will cover the role of the local pension board, governance arrangements, consideration of global equities investments (70% of pension fund investments), asset allocation strategy update and other changes impacting on pension funds as well as reminder of the Actuarial Valuation which commences in April 2016 to determine contributions from 2017/18. An invitation has already been sent out to all councillors and members of the Local Pension Board.
- 3.5.2 The speakers will include Peter Turner (Director of Finance), Alick Stevenson (Independent Financial Advisor), David Kellond (Pensions Manager) and representatives from Baillie Gifford.

3.6. Further Exploration of an Investment Proposal

- 3.6.1 Further details are covered in Part II of the agenda.

3.7. Consultation on a Public Sector Exit Payment Cap

- 3.7.1 The Queen's speech in May referred to government proposals to cap "Exit Payments". Details of the consultation are included in the link below. Apart from the potential cap on redundancy payments such as pay in lieu of notice it is likely to also cover the strain costs of awarding unreduced early retirement pensions. This will require changes to the pension's legislation and the Sub Committee will be updated on how the pension issues progress. There are also significant non pensions issues included in the consultation.

<https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap/consultation-on-a-public-sector-exit-payment-cap>

3.8. Options for Separation of Host Authority and Pension Fund

- 3.8.1 The LGPS Scheme Advisory Board was established under the Public Services Pension Act 2013 to advise the Secretary of State (DCLG) on the development of the Local Government Pension Scheme.

- 3.8.2 The LGPS Scheme Advisory Board has commissioned KPMG to complete the work on "Options for Reform" with a view to presenting to the 21st September Board meeting. It is anticipated that the LGPS Scheme Advisory Board will use this work to make recommendations to the Secretary of State (DCLG). Options include:

Option 1 Stronger role for Section 151 Officer within a distinct entity of a host authority;

Option 2 Joint Committee of two or more administering authorities;

Option 3 LGPS complete separation of the pension fund from the host authority

Option 3 explores DCLG or Treasury creating Single Purpose Pension Bodies and removing decision making from elected members.

- 3.8.3 Further details are provided in the link below:

http://www.lgpsboard.org/images/PDF/BoardJune2015/OfS_Instructions_for_bids.pdf

4. POLICY IMPLICATIONS

- 4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

Details are provided in the main body of the report.

6. PERSONNEL IMPLICATIONS

None arising directly from this report.

7. LEGAL IMPLICATIONS

The statutory provisions relating to the administration of the LGPS are contained in the Local Government Pension Scheme Regulations 2013.

Background Documents: (Access via Contact Officer)	Residential Property Acquisitions, Executive, 20 th May 2015. Local Pension Board, Pensions Investment Sub-Committee: General Purposes and Licensing Committee: Council, February 2015 Pension Fund Triennial Valuation, Pensions Investment Sub-Committee, 11 th February 2014
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