

### ITEM 3

#### London Borough of Enfield

<b>REPORT TO:</b>	<b>Enfield Pension Board</b>
<b>SUBJECT:</b>	<b>LGPS Governance Update</b>
<b>LEAD OFFICERS:</b>	<b>Paul Reddaway</b>

#### **1. RECOMMENDATIONS**

- 1.1 The Board is asked to note the contents of the report.

#### **2. EXECUTIVE SUMMARY**

- 2.1. The report draws attention to the current issues being considered by the various LGPS bodies. It covers the latest annual statistics, consideration of the SAB current work streams and revised guidance by CIPFA on Pension Fund Annual Reports.

#### **3. Ministry of Housing, Communities & Local Government (MHCLG) – Annual LGPS Statistics**

- 3.1. In October the Ministry of Housing, Communities & Local Government (MHCLG) published 'Local Government Pension Scheme Funds for England and Wales: 2017 to 2018 statistics'. Highlights include:
- i. Total Local Government Pension Scheme expenditure in England and Wales in 2017/18 was £12.7 billion. Removing the effect of mergers and large transfers in 2016/2017 and 2017/18 there was a like for like increase of £0.8 billion or 7.4% on 2016/17.
  - ii. Total Local Government Pension Scheme income in England and Wales in 2017/18 was £17.4 billion. Removing the effect of mergers and large transfers in 2016/17 and 2017/18, there was a like for like increase of £3.0 billion or 21.4% on 2016/17. This is mainly due to an increase in Employers' Contributions in 2017/18.
  - iii. Employers' Contributions to the Local Government Pension Scheme in 2017/18 in England and Wales amounted to £9.5 billion, up 27.7% on 2016/2017, and employees' contributions to the scheme were £2.1 billion. Employers' Contributions increased due to some large upfront pension contribution payments (deficit contributions) being made by some employers and higher contribution rates following the triennial valuation.
  - iv. The market value of the Local Government Pension Scheme funds in England and Wales at the end of March 2018 was £270.9 billion, an

increase of £12.1 billion or 4.7%. This statistic is also noteworthy as, with the caveat that valuation methodologies might not necessarily be comparable. The impact of the slump in the equities markets is clearly evident in these results.

- v. The Local Government Pension Scheme in England and Wales encompassed 5.8 million people at the end of March 2018. Of this number, 2.0 million are employees who are still contributing to the scheme, 1.7 million are pensioners and 2.1 million are former employees who are entitled to a pension at some time in the future.
  - vi. The number of people leaving the Local Government Pension Scheme in 2017/18 due to redundancy reduced by 19.9% from 2016/17 to 10,847. A number of funds reported there were special redundancy exercises or restructuring in 2016/17.
- 3.2. In January 2019 the MHCLG have also issued a consultation paper on Pooling – this is considered in a separate report – Item 4.

#### **4. Scheme Advisory Board (SAB) Work Streams**

- 4.1. The LGPS Scheme Advisory Board (SAB) exists to guide the administration of the LGPS by considering various issues of interest to LGPS members. It publishes guidance, conducts surveys and undertakes detailed work that individual schemes cannot resource. It reports directly to the Secretary of State on these matters and consideration of the overall affordability of the Scheme. The SAB provides a valuable source of information for all stakeholders.
- 4.2. There are a number of SAB workstream progressing at the current time.
- 4.3. The Cost Cap.
- 4.4. The potential for a Cost Cap was introduced in April 2015. For the LGPS, employer rates are set by local fund valuations (next in 2019) but the cost cap mechanism does potentially impact. Based on work undertaken by the Board's actuarial adviser, the total cost of the scheme in aggregate and nationwide (employer and employee) under the Board's process is 19% against a target total scheme cost of 19.5%. The SAB has agreed to develop a package of benefit changes to return the scheme to its total target cost of 19.5% while also looking at employee contributions at the lower end. In later February this process was 'paused' – pending the outcome of two court cases that could affect the introduction of the Cost Cap.
- 4.5. Separation Project
- 4.6. The Separation project is exploring options to help and assist with the successful management of potential conflict of interests arising between a pension fund and its parent local authority. Three bids have been received for this project to assess the practical steps that would need to be taken to implement the SAB's proposals.
- 4.7. The Code of Transparency
- 4.8. The Board has invited bidders to express interest in a piece of work to develop a Compliance system in respect of the Code of transparency. This is to address concerns about the level of transparency with reference to fund manager fees and in particular disclosure and comparability.

#### 4.9. Responsible Investment

4.10. The SAB has prepared a final draft of the Responsible Investment Guidance, reflecting recent Government thinking around ESG considerations including climate risk. On 7 November the Financial Conduct Authority (FCA) launched the Cost Transparency Initiative (the CTI). The CTI is an independent group working to improve cost transparency for institutional investors with the responsibility for progressing the work already undertaken by the Institutional Disclosure Working Group (IDWG). The CTI is supported by Pensions and Lifetime Savings Association (PLSA), Investment Association (IA) and Local Government Pension Scheme Advisory Board (LGPS SAB) and was recommended as part of the IDWG's report to the FCA on 15 June 2018. The IDWG was set up to support consistent and standardised disclosure of costs and charges to institutional investors. The FCA also want to see more consistent and standardised disclosure of costs and charges to institutional investors. Their view is that a standardised disclosure template should provide institutional investors with a clearer understanding of the costs and charges for a given fund or mandate. This should allow investors to compare charges between providers and give them a clear expectation of the disclosure they can expect to receive.

### **5. Chartered Institute of Chartered Public Accountants (CIPFA)**

#### 5.1. LGPS Annual Reports

5.2. CIPFA has revised its guidance on Pension Fund Annual Reports. For 2018/19 reports funds will be required to include additional information on pooling and the costs of transferring assets into pools including both historical and in year costs. There will also be additional documentation on cost transparency for fund managers costs.

5.3. Further, the CIPFA Code will require funds to produce detailed analysis on fund administration performance against a standard set of key tasks and functions.