

Croydon Council

REPORT TO:	Local Pension Board 5 July 2018
SUBJECT:	Scheme Advisory Board: Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: the Local Government Pension Scheme Advisory Board supports the delivery and administration of the Scheme. By comparing local performance with the national picture a direction of travel can be ascertained.	
FINANCIAL SUMMARY: there are no direct financial considerations relating to this report.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1. RECOMMENDATIONS

- 1.1 To note this report.

2. EXECUTIVE SUMMARY

- 2.1 This report summarises the findings of the 2017 Annual Report of the Local Government Pension Scheme Scheme Advisory Board. The report covers governance, funding, membership, investment, benefits and the financial, auditor and advisor statements.

3 DETAIL

3.1 The Chair's Foreword to the 2017 Annual Report of the Scheme Advisory Board (the fifth it has published) describes the Local Government Pension Scheme (LGPS). The LGPS is one of the largest defined benefit (DB) schemes in the world and is the largest DB scheme in England and Wales, with over 14,000 employers, 5.6m members and assets of £263bn. Key highlights for 2017 include:

- The total membership of the LGPS grew by 394,000 (6.9%) to 5.6m members in 2017 from 5.2m in 2016.
- The total assets of the LGPS increased to £263bn (a change of 21.2%). These assets were invested in pooled investment vehicles (52%), public equities (32%), bonds (7%), direct property (3%), as well as other asset classes (6%).
- The Local Authority return on investment over 2016/2017 was 19.5%. This was reflective of the better market conditions during the year.
- The scheme maintained a positive cash-flow position overall.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
- Over 1.6m pensioners were paid over the year. Fewer than 39 formal complaints about scheme benefit administration were determined and less than 13% were upheld by the Pensions Ombudsman.

3.2 As at the 31st March 2016, the LGPS liabilities were estimated at £254bn indicating an overall funding level of 85%.

3.3 The report covers governance, funding, membership, investment, benefits and the financial, auditor and advisor statements.

3.4 The body of the report begins, appropriately enough with a treatment of Scheme governance, management, administration, transparency, and accountability. At the national level the LGPS is governed by the Department of Communities and Local Government (DCLG) and the LGPS Advisory Board. The LGPS has to take account of guidance issued by the Pensions Regulator and Pensions Ombudsman determinations. The investment and management of LGPS assets, the collection of employer and employee contributions, and payment of pension benefits is the responsibility of LGPS administering authorities. The DCLG issues statutory guidance and each administering authority is required to publish a governance compliance statement and explain any non-compliance. Each administering authority is subject to an annual external audit and has to publish an audited financial statements and annual report. The role of the Scheme Advisory Board is to help and support DCLG and administering authorities fulfil their statutory duties and obligations. Training has been delivered to the Board on an ongoing basis at its meetings and through its professional advisers and attendance at LGPS conferences and other events.

3.5 At the local level, each LGPS fund is administered by its administering authority. From 1st April 2015, under the provisions of section 5 of the Public Service Pensions Act 2013 and regulation 106 of the LGPS Regulations 2013 (as amended) each administering authority must establish a Local Pension Board. To assist in the establishment of these Boards, the Shadow Scheme Advisory

Board (SSAB) has developed guidance on the creation and operation of Local Pension Boards for Administering Authorities.

- 3.6 In line with the LGPS regulations, the funds' actuarial positions are reviewed every three years. The triennial valuation results shown in the 2017 Annual Report and Accounts were based on membership data and asset values as at 31st March 2016. These valuations set the employer contribution rates from 1st April 2017 to 31st March 2020, and were payable during the accounting period ended 31st March 2017. The 2013 valuations, using fund data at 31st March 2013 have set the contribution rates from 1st April 2014 to 31st April 2017, and have taken into consideration funding under the new benefit structure.
- 3.7 As at 31st March 2016, the total asset value of the Scheme was £216 billion, compared with £181 billion as at 31st March 2013. The liabilities totalled £254 billion in aggregate. The overall funding level was around 85%. By way of comparison as at 31st March 2016, the funding level of the 5,945 direct benefit occupational pension schemes within the Pension Protection Fund index was 81.0% (on an insurance buyout basis, which is different from the LGPS actuarial valuation methodology). As at 31st March 2016 the University Superannuation Scheme funding level was 83%.
- 3.8 As at 31 March 2017, the total membership of the Scheme was 5.6million, compared with 5.3million as at 31 March 2016. The greatest increase in absolute and relative terms was to deferred membership, which increased by 10.5% over the year, however, this was due in part to the reporting of undecided leavers previously not included in deferred totals. The total number of employers listed in the Fund annual report and accounts 2016 was 14,019, compared with 12,915 for 2015. These totals include active and ceased employers as well as scheduled and admitted bodies, including outsourcing companies, academies etc.
- 3.9 An important component of the investment piece relates to stewardship and responsible investment. Collectively the £263bn LGPS funds are one of the largest 10 global sources of capital and can influence behavioural changes that lead to better stewardship by the global asset management community and the entities and places they invest in. All LGPS funds have published their Investment Strategy Statement (replacing Statement of Investment Principles) and comply with the Myners Principles as these are LGPS statutory requirements. The UK Stewardship Code (second edition 2012) and global United Nations Principles of Responsible Investment (UNPRI) set out key principles of effective stewardship for asset owners to help them better to exercise their stewardship responsibilities. Compliance with these UK and global sets of principles is not mandatory for LGPS funds but they have the support of the UK Government and Local Authority Pension Fund Forum (LAPFF). As at 31st March 2017 some 28 (31%) were signatories to the Code and 8 funds (8%) (plus one pool company becoming a signatory in March 2018) are signatories to the UNPRI.
- 3.10 Over the last twelve months the average Local Authority pension fund has returned 21.4%. This return is well ahead of the 30 year average of 8.7% p.a. and well ahead of actuarial assumptions which are currently estimating around 5% p.a. Funds also had an unusually strong year compared to their own

benchmarks – with more than three quarters outperforming. This is in contrast to the ten year results where the majority of funds underperformed their benchmarks after fees.

- 3.11 If the transport funds are excluded, which have very different liability profiles, the range of results in the latest year ranged from a high of 26.8% to a low of 13.9%. Generally funds with a higher equity component were towards the top of the range with those that had a higher commitment to absolute return strategies towards the bottom. Many active equity managers struggled to add value in the peculiar market conditions with the majority of global equity managers employed across the LGPS underperforming, and some quite significantly. Managers who had a value type approach to investing - where there is a greater focus on dividends, tended to perform better.
- 3.12 Local authority funds still retain a high commitment to active management with the average fund having just under a quarter of its assets managed passively. Whilst the weighting in passive has been increasing it has been doing so very slowly – ten years ago the average fund's passive exposure was already 20%. The increased focus on cost reduction may promote a further move towards index-tracking, however this may be balanced by the asset allocation decisions being made, with funds continuing to increase exposure to assets for which there is no passive alternative.
- 3.13 The median (middle) performing fund returned 20.6%, 0.8% below the average. This reflects the relatively strong performance of the larger funds in the Universe this year. These funds have benefited from a relatively high exposure to equities and better returns within this area. In terms of asset allocation, there was no significant change at the macro level over the year. The relatively small changes observed resulted from differential market movements rather than cash flow, with equities increasing in proportion as a result of the strong results achieved over the year and property reducing because of the relatively poor results. At 62% of the average fund, equities represent the largest component by a significant amount.
- 3.14 The 5.6 million members of the LGPS receive a life time membership service and regular information about LGPS benefits from their host LGPS pension fund upon joining the scheme, via annual benefits statements, upon leaving the scheme, or becoming a pensioner. It is pleasing the vast majority of LGPS members appear to welcome and are content with the information and benefits they receive and the LGPS complies with Pensions Regulator guidance and codes in respect of member communications. Based on reports from the Pensions Ombudsman (PO) a small minority are recorded as making formal complaints about their pension benefits initially to the Pensions Advisory Service (TPAS) and if they are still not satisfied to the PO. The vast majority of cases concern employer decisions about ill-health retirement and or calculation of ill health retirement benefits. This is in line with most other occupational pension schemes.
- 3.15 This report summarises at a high level the contents of the annual report. The Scheme Advisory Board's website provides more detail and can be accessed at this address:

<http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report>

4 FINANCIAL CONSIDERATIONS

4.1 There are no direct financial considerations relating to this report.

5. OTHER CONSIDERATIONS

5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

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BACKGROUND DOCUMENTS: None

APPENDICES: None