# Cumbria County Council Cumbria LGPS Pensions Forum October 2017



#### Cumbria County Council Welcome from Fiona Miller, Senior Manager – Pensions & Financial Services



## Housekeeping



Toilets



**Mobile Phones** 



**Fire Alarms** 



# Agenda (I)

	Welcome and Coffee	
	1. Terms of Reference	Fiona
	2. Election of Chair	Miller
10.00 -	3. Membership	/
10.10	4. Apologies for absence	New
	5. Minutes of previous Forum	Chair
	(21 November 2016)	
10.10 -	6. Pension Administration -	George
10.50	YPS 2016/17 Performance	Graham/
	Results, and LGPS	Steven
	Developments	Moseley



# Agenda (II)

10:50 –	<ol> <li>Triennial Valuation Results –</li></ol>	Leanne
11:10	Mercer Ltd.	Johnston
11.10 –	8. Annual Report & Accounts	Pete
11.25	2016/17	George



# Agenda (III)

11.25 –	9. Asset Pooling in the LGPS –	Fiona
11.55	Update on progress and on the	Miller
	Borders to Coast Pensions	
	Partnership.	
	10. Provisional Date of Next	
	Meeting 9 <sup>th</sup> October 2018	
11.55 –	Meeting closure	Chair
12.00		



## Local Government Pension Scheme





# Cumbria County Council Pension Administration YPS 2016/17 Performance Results



#### **Administration Update**



#### **George Graham**

Managing Director (Administration and Business) Local Pensions Partnership

#### Agenda



- Administration Performance.
- Administration Challenges.
- Future Change and Developments.

#### Has it only been a year?



- Operational performance.
- Operational Challenges
- What Lies Ahead

#### **Administration Performance**



- For Cumbria 98% of 7,000 work items were completed on time.
- The Help Desk answered 88% of calls within standard against a target of 90%.
- We visited 21 employers to provide support, held 8 surgeries to help members interpret benefit statements.
- Nearly 28% of members (and rising) are registered for My Pension Online.

#### **Administration Challenges**

- Increasing complexity of the scheme and data requirements, addressed by monthly data collection covering more than 98% of the membership.
- Tax changes affecting more members identified a need to improve communication and support.
- Growing numbers of employers increased emphasis on employer management.
- GMP reconciliation pension schemes having to clean up the Government's data.
- Data management and data protection.
- Exploiting advances in technology pensions app anyone?

#### **Future Changes and Developments**

- CCCPF's administration service is now part of what is probably the largest shared service operation in this field.
- We are looking to:
  - Reorganise ourselves as a single operation to become more efficient. This involves more jobs in the North West and already we have six additional Help Desk roles.
  - ✓ Improve our online service and our other technology.
  - Grow our business by bringing more schemes into the fold, and we are already in the process of bringing in one LGPS Fund and a firefighters' scheme.





# **Technical Update**



#### by Steven Moseley

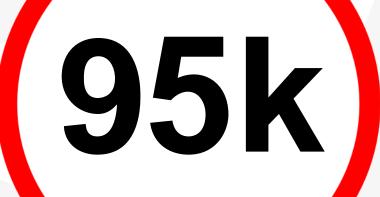
### Contents

- Public sector exit payment cap
- Recovery of public sector exit payments
- Reforms to public Sector exit payments
- LGPS consultation
- Money Purchase Annual Allowance
- 2017 SPA review
- Questions





# Public sector exit payment cap



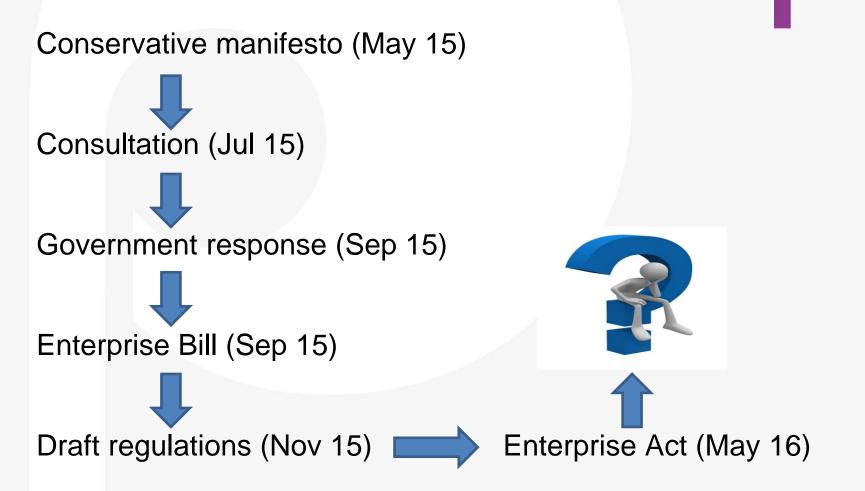


### **Overview**

- £95k cap on total value of exit payments.
- Cap to apply to most forms of exit payment (including pension strain).
- Will apply to all public sector bodies (ONS definition) with a small number granted exemption.
- Waiver process for exceptional circumstances.



#### Update





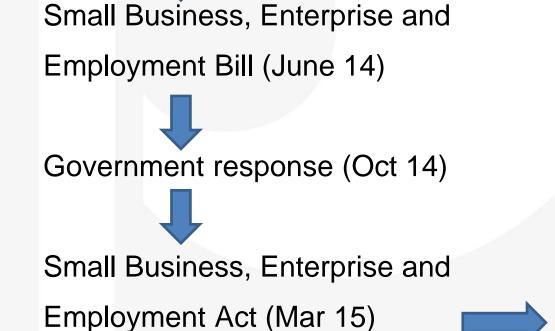
# Recovery of public sector exit payments



## **Overview**

- Exit payments recovered if return to public sector within 12 months.
- Applies to individuals who earned £80k or more for year before leaving.
- Tapering applies to repayable amount.
- Most exit payments recoverable (including pension strain).
- Will apply to all public sector bodies (ONS definition) with a small number granted exemption.
- Waiver provisions.





Consultation (Jun 14)



New consultation (Dec 15)



# Reforms to public sector exit payments



### **Overview**

- Aim to reduce cost of redundancy payments and ensure greater consistency between workforces.
- Compensation terms for each workforce to be individually decided, but within centrally-set framework.



All changes to have been agreed (by end of Jun 17)

The Local Government Pension Scheme (Amendment) Regulations 2016/17





# Key proposals

- Fair deal proposals.
- More freedom and choice for members with AVCs.
- 1/04/08 31/03/14 leavers to have voluntary access between 55 and 60.



### Update

#### Consultation (May 16)







# Money Purchase Annual Allowance

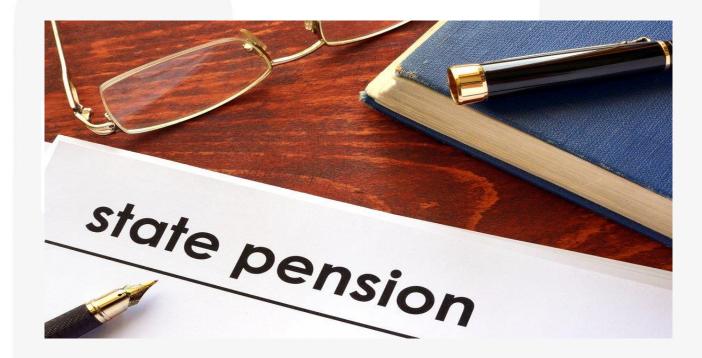


# Background

- In April 15, government gave members with DC savings more freedom and choice in when and how they can access those savings.
- MPAA introduced to stop recycling.
- Limit £10k.
- Some impact for LGPS members.
- Government legislating to reduce the limit to £4k with effect from April 2017.



# **2017 SPA review**





## Background

- LGPS NPA linked to SPA.
- SPA for women started to rise from 60 in Apr 10 to reach 65 in Dec 18.
- 66 (Dec 18 Oct 20),
- 67 (26-28)
- 68 (44-46)
- To inform each review, government must ask GAD and a person of their choice to each prepare a report.
- Government required to review SPA at regular intervals.

# 2017 Review

- They chose Sir John Cridland whose report was published, alongside GAD's, on 23 March 2017.
- Both reports recommended (amongst other things) that SPA should increase for certain people.
- Report published on 19 July 2017.
- Proposal to bring forward increase to 68 (2037-39 rather than 2044 46).
- Will confirm the change and pass the legislation after the next SPA review (due by July 2023).



#### **Contacts:**

Web: www.yourpensionservice.org.uk

E-mail: <u>AskPensions@localpensionspartnership.org.uk</u> Phone: 0300 123 6717

## Cumbria County Council Triennial Valuation Results Mercer Ltd



#### CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

#### EMPLOYER FORUM

UPDATE FROM THE ACTUARY

17 October 2017



John Livesey FIA



Leanne Johnston FIA



#### MAKE TOMORROW, TODAY MERCER

#### AGENDA



#### PURPOSE OF AN ACTUARIAL VALUATION VALUATION OUTCOMES

#### PAST SERVICE BENEFITS



#### FUTURE SERVICE BENEFITS



Contribution impact Deficit spread over agreed "Recovery Period"

Contribution impact Cost of 1 year's service "Future service contribution rate"

### 2016 ACTUARIAL VALUATION CUMBRIA LGPS - SUMMARY OF RESULTS

	31 March 2016
Assets	£2,047m
Liabilities <sup>1</sup>	£2,257m
Deficit	£210m
Funding Level	91%
Average Primary Contribution Rate <sup>2</sup>	15.3% of pensionable pay

1. Past service position includes allowance for short-term pay of 1% p.a. for 4 years up to 2019/20 for all employers

2. Allows for different discount rate assumption to past service (CPI plus 2.75% p.a.).

Funding position and contribution requirements were assessed at individual employer level.

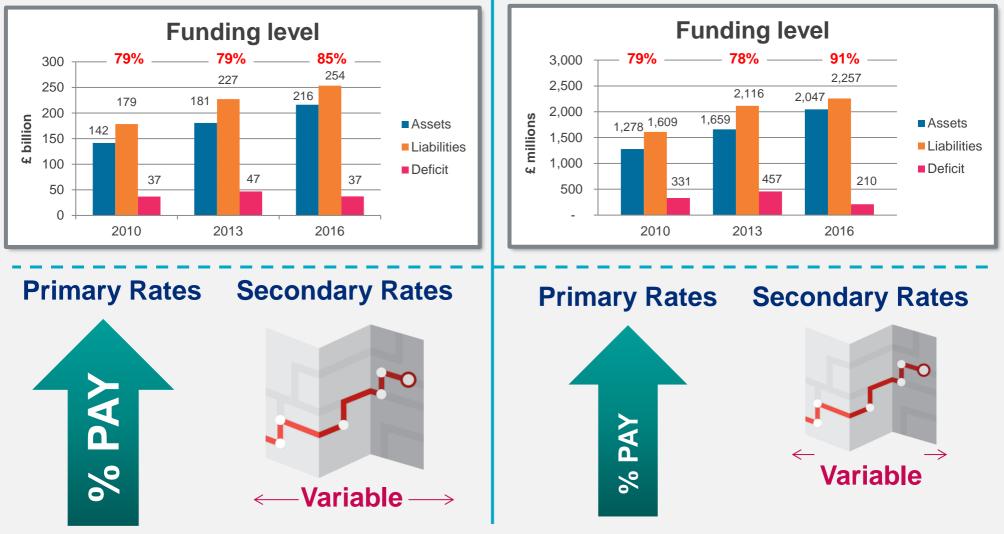
Some employers opted to pay their contributions early to benefit from a cash discount.



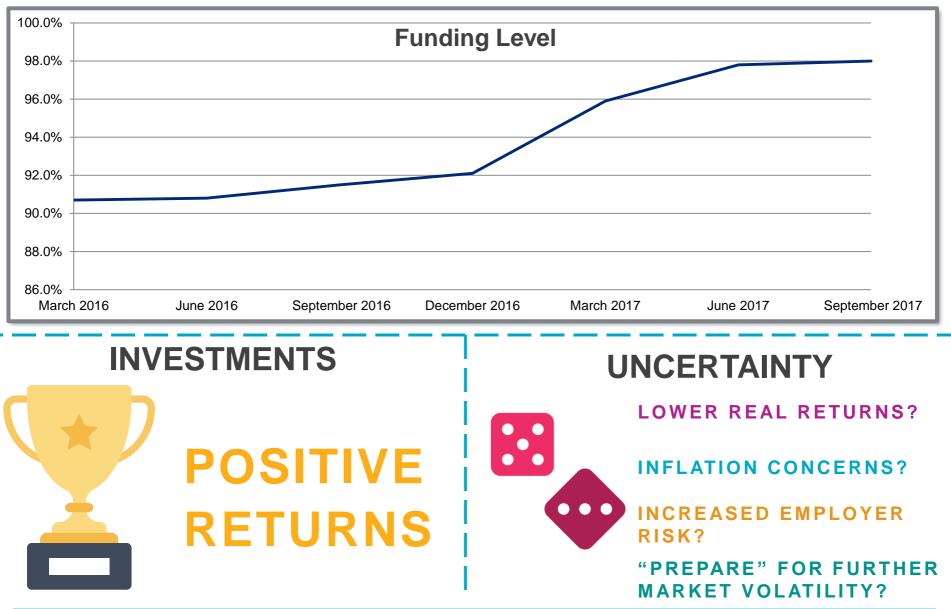
#### CUMBRIA VS THE LGPS AS A WHOLE

### LGPS AS A WHOLE





#### **2016 VALUATION - ONE YEAR ON**



### FUND TERMINATION POLICY

### WHAT IS IT?

- Details how termination position / contribution will be assessed
- Depends on if there is a guarantor <u>within</u> the Fund
- Reviewed following each actuarial valuation

### WHY IS IT FUNDED DIFFERENTLY?

- No recourse if a deficit arises in the future
- More prudent assumptions if no guarantor
- Protects all employers



#### COVENANT

### WHAT IS IT?

- Assessed strength of an employer.
- Underwrites risks to which the Fund is exposed.



### **COVENANT MONITORING**



- Assess / monitor in line with Fund policy
- Proportionate approach
- Uses fundamental financial metrics
- Overall risk rating Red / Amber / Green

### CURRENT ISSUES



 SAB is gathering data to analyse membership, liabilities and covenant



### EXIT PAYMENTS

- Government proposal to cap exit payments at £95,000
- Currently on hold following the General Election



- Awaiting further consultation
- Unclear if will be fundamental change in approach

### CURRENT ISSUES



- Relaxed for prison workers and police
- 2016 Valuation results included allowance until 31 March 2020



- Ensure a fair balance of risk between scheme members and the taxpayer
- Only considers changes relating to members

# MAKE MERCER TOMORROW, TODAY

# Cumbria County Council Cumbria LGPS 2016/17 Annual Report & Accounts Pete George, Group Finance Manager



# Contents

Cumbria LGPS specifics (how many and how much)

Achievements & Investment performance in 2016/17

Annual Report & Accounts 2016/17

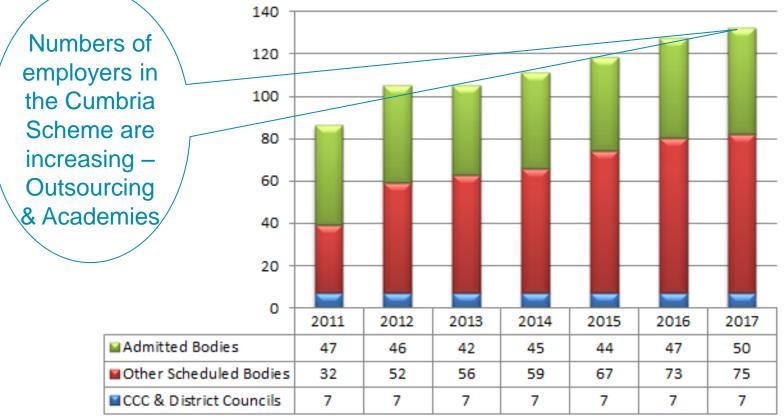


# **Cumbria LGPS – How Many?**



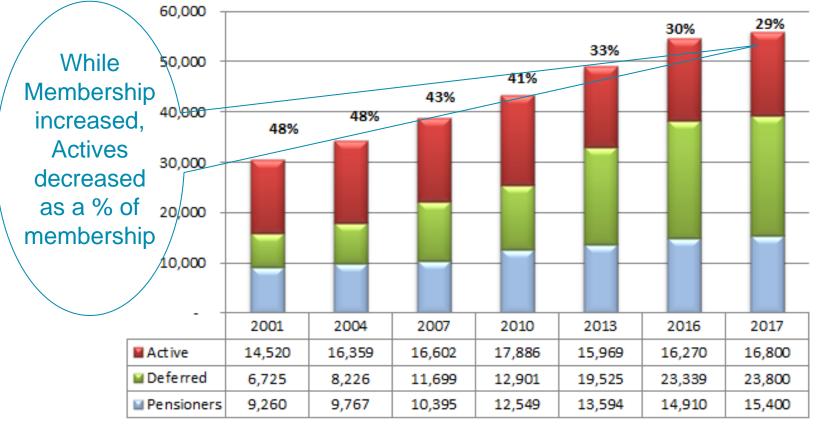


# **Employer Numbers**





# **Membership Numbers** at Triennial Actuarial Valuations





# Why the LGPS Matters to Cumbria



13.8% of the Adult Population of Cumbria is in the Cumbria LGPS

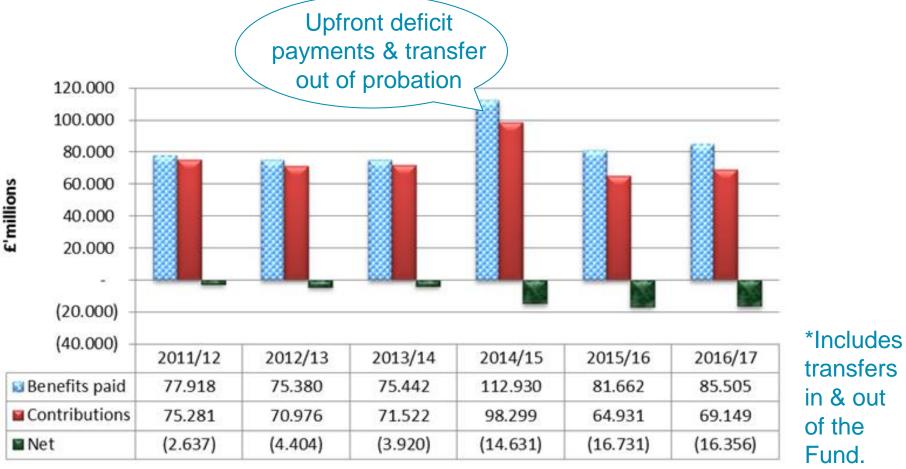


# **Cumbria LGPS – How much?**



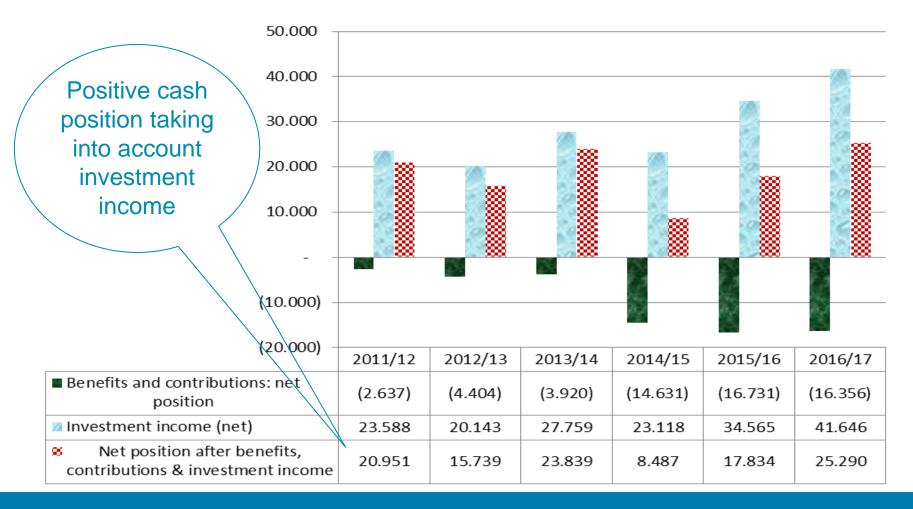


# Benefits paid against contributions received\* £'m



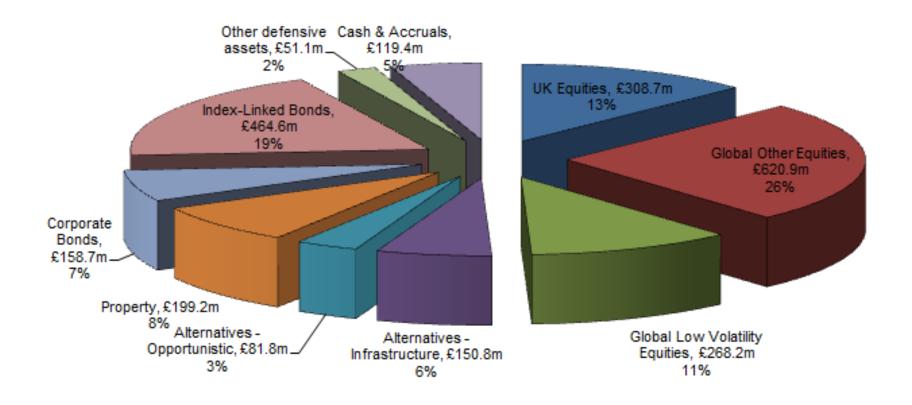


# Net position after investment income £'m



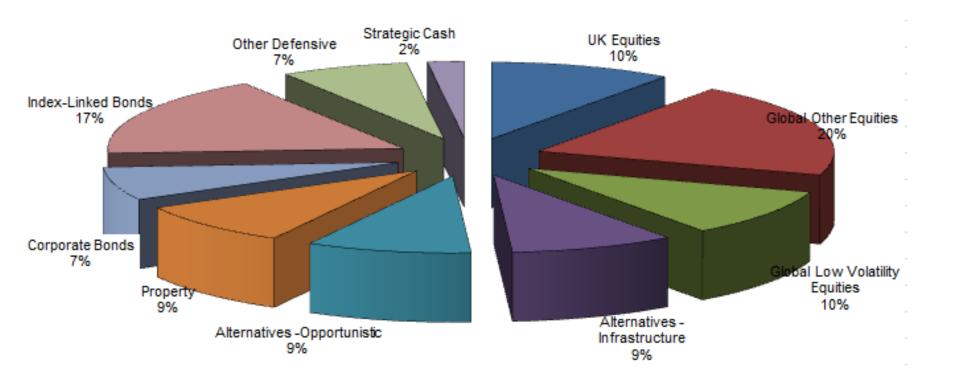


# Investments (March 2017) £2.423bn





# **Target Investment Asset Allocation**





# Achievements & Investment performance in 2016/17





# Achievements Against 2016/17 Business Plan included:

Further investment asset allocations in alternatives implemented

Annual Report & Accounts: on time with clean audit Completion of the Triennial Valuation of the Fund Implementation of a new Investment Strategy Statement Successful embedding and development of the Local Pensions Board

Development of Border to Coast Pensions Partnership Ltd for the pooling of Pension Fund assets Ensured responsible investing through voting and engagement with the companies in which the Fund holds shares

Provided effective training to members, partners and colleagues

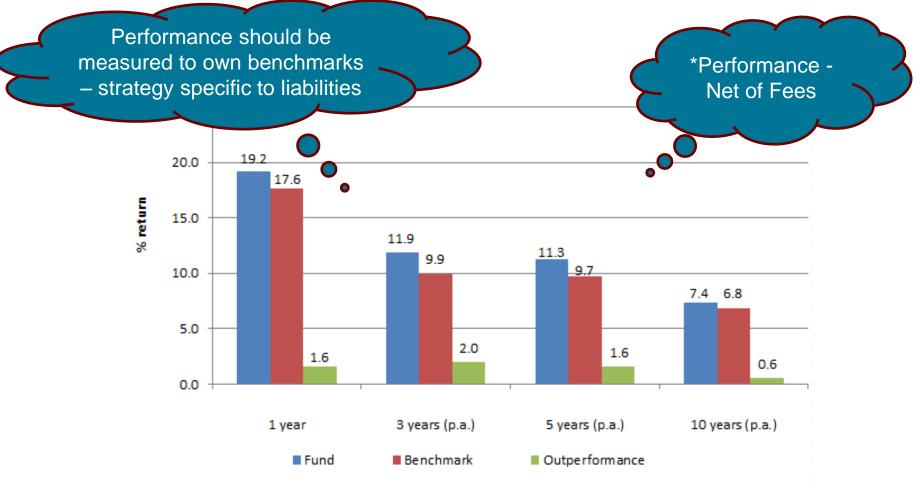


# **Investment Performance**

- Fund assets increased by £376m in 2016/17 to £2,423m at 31/3/2017
- Fund assets generated 19.2% return (net of fees) in 2016/17
- Assets outperformed 1 year benchmark by 1.6% equivalent to £33m
- Funding level increased from 91% at 31/3/2016 to 94% at 31/03/2017.

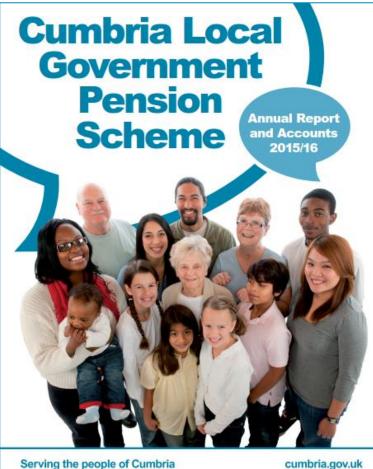


# **Fund Specific Performance\***





# Annual Report & Accounts 2016/17



Serving the people of Cumbria

www.cumbria.gov.uk/ finance/finance/ cumbrialgps.asp



# **Audit headlines**

- Unqualified and unmodified opinion.
- No Adjustments to Primary Statements.
- Any adjustments identified were to memorandum disclosure notes only, all of which were amended by management.
- Prepared in advance of statutory deadline.
- No Recommendations.



# **Preparation for 2017/18 Accounts**

Annual Report and Accounts required to be completed by 31/7/2018 (two months earlier than current deadline)

To meet the earlier closedown deadlines officers the Fund will:

- Have early discussions with the Actuary and Auditors with regards to early production of IAS19 figures & use of estimates.
- Review and publicise the timetable for the year end processes.



# **In Summary**

>Another good investment year, fund value increased

- ✓ 2016/17 investment return 19.2% (Benchmark 17.6%)
- ✓ 10 year investment return 7.4% p.a.(Benchmark 6.8%)
- > Significant key achievements include:
  - Driving forward the development of the Border to Coast Pensions Partnership Ltd.
  - ✓ Investment Strategy reviewed and amended during 2016/17
  - ✓ Completion of Triennial Valuation by 31st March 2017
  - Annual Report and Accounts completed on time with no recommendations from the audit.



# **Representations from Employers**

To remind attendees that the Pensions Committee agenda also has a standing item to provide a formal opportunity for Non County Council employers or interested parties to raise questions or concerns relating to the Pensions Scheme at the quarterly Pensions Committee.

Any comments can be made in writing to Democratic Services, Cumbria House, 117 Botchergate, Carlisle CA1 1RD.



# **The Team**

Julie Crellin – Assistant Director - Finance (S151 Officer) Fiona Miller – Senior Manager, Pensions & Financial Services Pete George – Group Finance Manager, Pensions, Investments & Insurance <u>Investments & Governance</u> <u>Pensions Administration</u>: Debbie Purvis, Lucy Taylor, Julie Dole,

Gill Welbourn, Sue McGill,

Allison McGuinness, Phil Whyte Janet Bozic,

Steven Lawson,

YPS (Your Pension Service)



# **Further information**

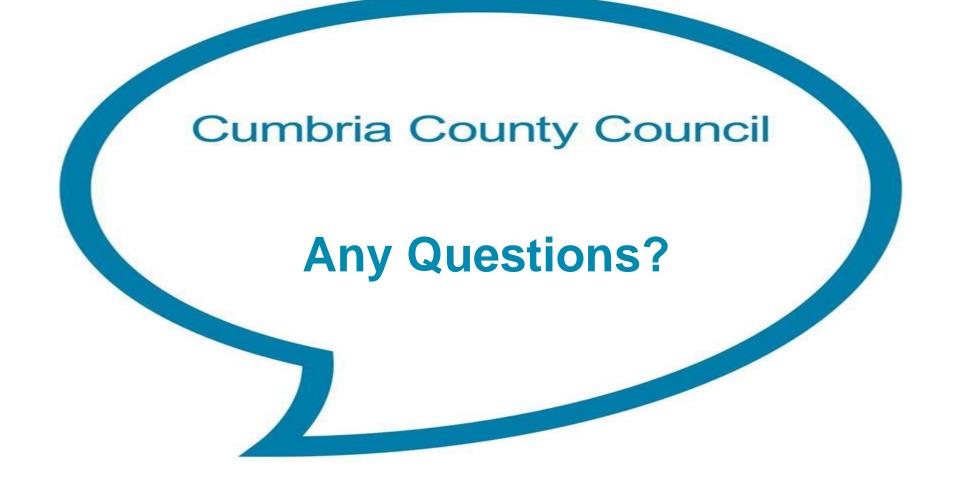
# Email the Cumbria pensions team: pensions@cumbria.gov.uk

Cumbria Fund information: <u>www.cumbria.gov.uk/Finance/finance/cumbrialgps.</u> asp

Employer / Member Information YPS: <u>www.yourpensionservice.org.uk/</u>

General LGPS information: <a href="https://www.lgps.org.uk">www.lgps.org.uk</a>







### **Cumbria County Council**

Pooling What it Means Nationally For the LGPS & Specifically For BCPP Partner Funds

Fiona Miller – Senior Manager Pensions & Financial Services (Deputy S151 LGPS)



# **Background – Timeline To Date**

- ➢ 2012- Hutton Review
- 2013 Public Service Pensions Act,
- May 2013 Sec State DCLG statement,
- Jul 2014 Consultation Active / Passive,
- Oct 2015 Govt. consult on "the criteria"
- Nov 2015 Chancellor's Budget Speech
- Nov 2015 Consultation & Draft Invest. Regs.
- Feb 2016 Initial Joint Pooling Proposals,
- Mar 2016 Chancellor's Spring Statement,
- Jul 2016 Cross Govt. Dept. Review Meetings,
- Jul 2016 Final Pooling Proposals Submitted



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# **Background – Timeline To Date**

- Nov 2016 Investment Regs. enacted
- Dec 2016 Ministerial Review Meeting/Approval
- Mar 2017 Admin Authorities Gain Council Approval / Constitutional Changes
- Mar 2017 SAB Advice Scheme Member Representation
- June 2017 Pools provide Spring progress update to DCLG
- Aug 2017 Joint Response from DCLG, Cabinet Office & Treasury



Local ocventment will consul on further action, including use of the powers available. We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line will your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with the sustainability of the LGPS for the benefit of its members.

you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.

CHIEF SECRETARY TO THE TREASURY MARCUS JONES MP

CAROLINE NOKES M

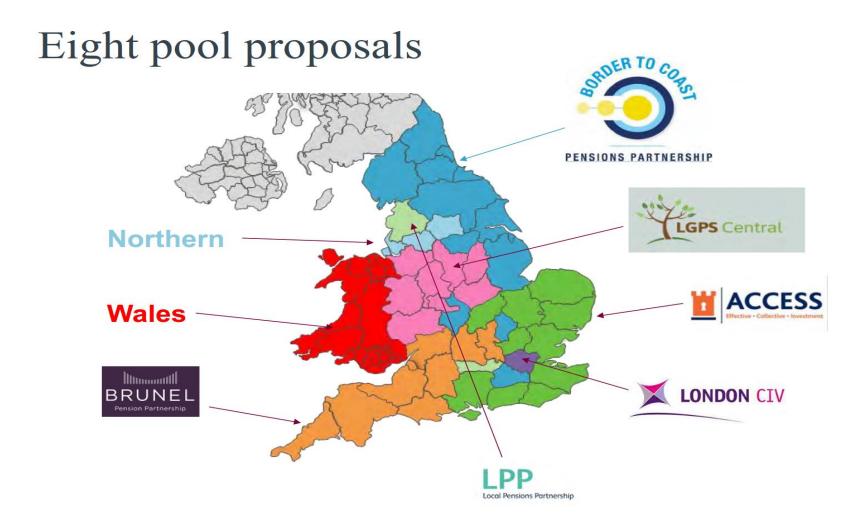


# Government Initial Requirement – "The Pooling Criteria"

- Scale "half a dozen sovereign wealth funds"; >£25bn
- 2) Exhibiting strong governance & decision making including RI / ESG requirements
- 3) Delivering reduced costs & provision of excellent value for money
- 4) With improved capacity & capability to invest in infrastructure



## **Eight Proposals Approved**



#### What They Got - Range of Structures & Scale In Summary 5 Different Delivery Models

#### **BCPP, Central, LPP**

- Internal & External Investment Management
- Fully Regulated Structure delivered through a wholly owned Company / Operator
- Legal ownership of investments changes to units in BCPP pooled sub-funds

#### L-CIV

As above but no Internal Investment Management

#### ACCESS, Wales

- External Investment Management
- Outsourced Operator



# What They Got - Range of Structures & Scale 5 Basic Models

#### **Brunel**

- External Investment Management
- Manager Selection by regulated company
- No central operator, no change to ownership of investments

#### Northern

- Internal & External Investment Management
- Arrangement governed by Joint Cttee.
- > No central operator, no change to ownership of investments
- Pooling limited to alternative asset classes through joint venture approach



# **Are Different Structures Appropriate?**

- Need to reflect different underlying Funds,
- Funds appetite to risk,
- Internal / external management,
- Number & size of Funds in the Pool
  - $\succ$  3 to 33 Funds in a pool,
  - £16bn to £43bn (March 2017)
- What Funds want to retain control of,
- Regulatory operating structures required,
- Costs to implement & run.







#### Aim of Pooling – 1) Deliver Savings <u>Nationally</u> Across LGPS

# Goal

Maximise Risk Adjusted, Net of Costs, Investment Performance

# **Balance**





Funds Need for choice in asset allocation to match liability profile

Pools Need for scale to drive down costs & improve efficiency

# Aim of Pooling – 2) Increase Capacity & Capability in Infrastructure Investment

**Balance** 

Government Desire for Increased Infrastructure Investment by the LGPS

Funds Required to deliver appropriate risk adjusted asset strategy to match their liability profile

Pools requirement to retain independent investment led decision making

## **So our Response - what is BCPP?**



Wholly Owned LA Controlled FCA Regulated, Limited Company

Partnership of 12 *"likeminded"* Funds

Core principle One Fund, One Vote regardless of size



## **BCPP Partner Funds – Key Statistics**

- Mix of small, medium & large Funds.
- Mix internally & externally managed Funds.
- £36bn in assets (March 2015)
   £43bn in assets (March 2017)
- Covering most asset classes & structures.
- > 1.2m Scheme Members
- > > 2,400 Employers
- Conservative estimate of annual savings £55m / £29m – transition costs dependent
- Savings not equally split between Funds.



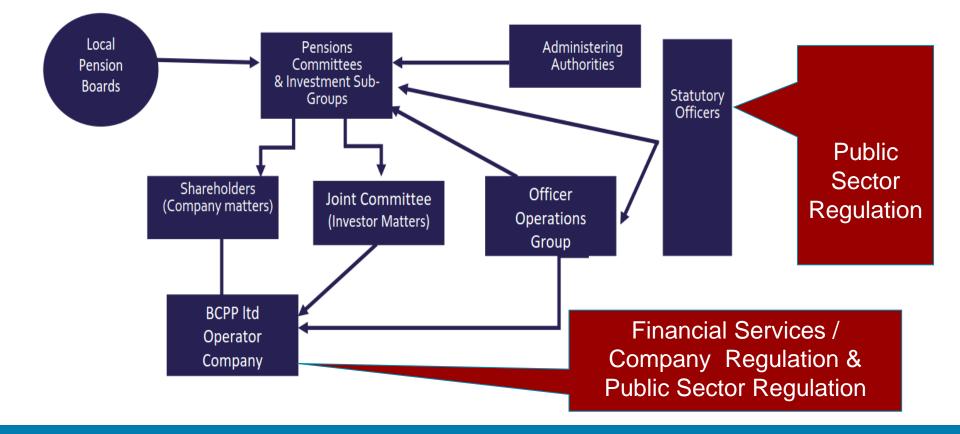


#### Partner Funds - £43bn at 31st March 2017

Bedfordshire Pension Fund	£2.1bn	NORTHUMBERIAND Northumberland County Council	£1.3bn
County Council	£2.4bn	COMBINED AUTHORITY	£7.6bn
Durham	£2.7bn	PENSION Surrey Pension Fund	£3.8bn
ERPF East Riding Pension Fund	£4.5bn	Toesside Fension Fund	£3.9bn
Lincolnshire	£2.1bn	Tyne and Wear Pension Fund Administered by South Tyneside Council	£7.9bn
North Yorkshire County Council	£3.0bn	WARWICKSHIRE Pension fund	£2.0bn
		BCPP	£43.3bn



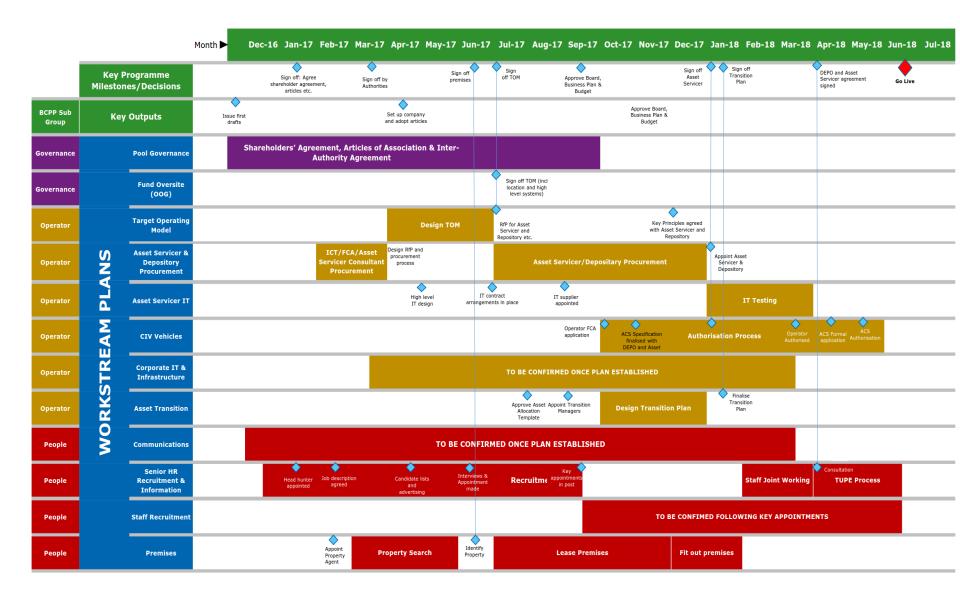
## **BCPP Governance Structure**





BCPP	Outline Timeline for Establishing BCPP		
Aug – Feb 2016	Establish pooling partners, submit initial response Govt.		
Feb – Jul 2016	Draft & agree across 12 Authorities detailed proposal		
Sep – Dec 2016	Government Approval Proposal		
Jan – Apr 2017	Agree Recruitment & Remuneration Policy Senior Execs		
Jan – Dec 2017	Define Sub Fund Offering & Asset Transition Planning		
Jan – Mar 2017	Agreement through 12 Full Council Meetings		
Jan – Mar 2017	Procure required advisory services		
Apr – Oct 2017	Recruit Senior Executives		
Apr – June 2017	Creation of BCPP Ltd Company		
Apr – Dec 2017	TOM Design / FCA Regulatory Approval Process		
Jan – Sep 2017	Procure Asset Servicer; ICT; Premises; Bank; Auditors; etc		
Dec – Mar 2018	Fit out Building / testing ICT		
Jun 2018	TUPE transfer of staff from Internally Managed Funds		
Jan – May 2018	Recruit additional investment and operational staff		
Jun 2018	Asset Management Company Ready to Receive Assets		
2018 – 2030	Transition £43bn (and growing) of Assets		

#### **BCPP Ltd Build Timetable**



# **DRAFT – High Level Asset Transition Plan**

Go Live	Managed	Asset Class	
+Qtr. 1	Internally	UK Equities & Fixed Income	
+Qtr. 2	Externally	UK Equities	
+Qtr. 3	Internally	Regional Equities & Fixed Income	
+Qtr. 4	Externally	Global Equities	
+Qtr. 5	Internally	Regional Equities	
+Qtr. 6	Externally	Fixed Income	
+Qtr. 7	Externally	Regional Equities	
+Qtr. 8	Mix	Direct Property	
Alternatives Brought In As They Run Off, Mixture of Internal & External Management			

## **BCPP – What Are we Building?**

- Asset management company regulated by the FCA;
- Adhering to other Financial Services Regulation;
- Subject to Local Authority Regulation:-
  - LA Constitution Delegation Rules
  - Joint Committee Requirements
  - LGPS Regulations
  - OJEU Procurement
  - ➤ "Teckal" compliance;
  - ➢ FOI / data access;



Sat between Central Govt. policy aims; Local Govt. law / control & Finance Sector regulation & culture.



# Who's Responsible For What?

#### Local Authority

#### **BCPP Ltd – the Pool**

- Asset Strategy
- Manage the relationship / performance of pool (as client & shareholder)
- Ensure "Teckal" / FOI Compliance
- Through Jt. Cttee. Approve
   Pool Budget & Strategic
   Plan
  - Director Appointments
  - Sub-Fund Prospectuses
  - RI / Shareholder Voting
- Cost Transparency Reporting
- Reporting to Govt.

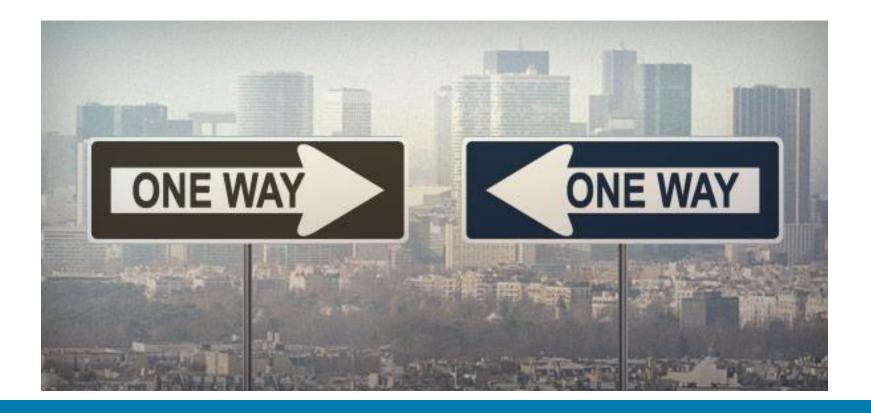
- Implement Fund Strategy
- FCA Compliance
- Safeguard Client Assets
- Appoint / manage / monitor / dismiss managers
- VFM delivery of savings
- Implement RI / shareholder policy
- Client relationship management
- FOI / "Teckal" / OJEU Compliance

#### Merging Regulatory Regimes -What Does It Actually Mean?



#### Only Time Will Tell.....

## Merging of Public & Private Sector Culture How's That Going to Work?



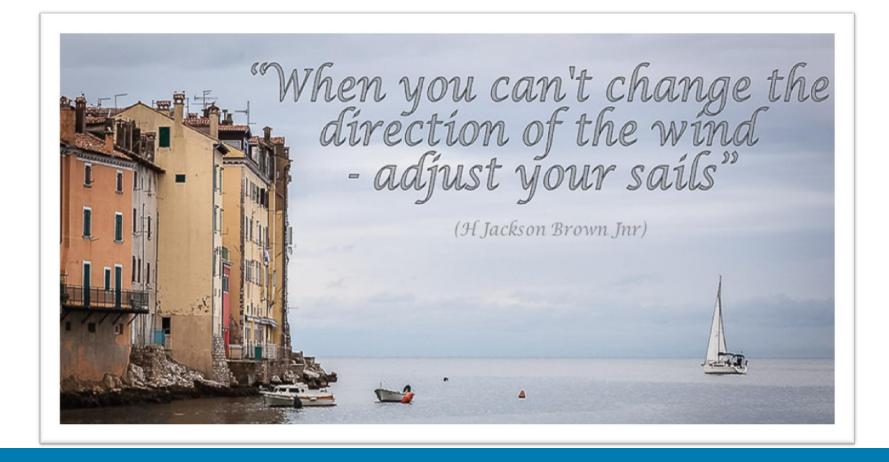


# Future Considerations For Scheme Members and Employers

- No impact on employer contribution rates until at least 2020.
- Employer contributions rates from 2020 will be dependent upon a range of factors including:
  - asset performance
  - 2019 actuarial valuation assumptions
  - cost of transition of assets to BCPP
  - savings from pooling.
- Pooling has no impact on employee contributions rates or benefits for members of the LGPS.
- The Fund retains responsibility for setting its own investment strategy.









Thanks for Listening Any Questions







