

# Local Government Newsletter

January 2018



Welcome to the January 2018 edition of the newsletter.

Happy New Year! I hope you all had a great Christmas break.

A new year brings a new editor to the newsletter! For those of you who don't know me, I'm Sam Ogborne and I'm an actuary working in the Public Sector Actuarial Team. I hope you enjoy reading this month's issue.

*Sam*



## People News

Eesa Mohamed Zakariya

Many congratulations to our colleague Imla Ikram and her husband Yehia who welcomed a little baby boy into the world on 19 December.

He weighed in at 8 lbs and 4 oz and all are doing well.

Imla has provided a picture of Eesa which I've attached here.

All of us in the Public Sector Team are looking forward to meeting the little one soon!

## Aon Hewitt Seminars - Hot Topics in the LGPS

You should all have received an invite to our **free** LGPS Seminars taking place at Aon offices across the country in late February and early March. The topics we will be covering include longevity, data improvement and effective governance, and a chance to feed into the Tier 3 Employer review.

The dates and venues are as follows:

Birmingham - Friday 23 February 2018

Leeds - Tuesday 27 February 2018

London - Monday 5 March 2018

The seminars will take place between 10am and 3.30pm with lunch and refreshments provided.

The seminars are suitable for anyone involved with the management of LGPS funds. You can register by clicking on the following link:

[Register](#)

If you would like more information, or would be interested in attending a seminar on 22 February in Bristol or Cardiff rather than the locations above, please contact [Laura Caudwell](#) or your usual consultant.

## Talking points

### Carillion liquidation

On 15 January 2018 Carillion went into liquidation. This will generally lead to Carillion ceasing to be an employer in the LGPS Funds in which it participates. In some cases though, we understand that the contracts may continue, e.g. if delivered by a third party. If you haven't done so already, you should discuss with your contacts at Carillion and the appropriate Scheme Employer what this means for their admission in your Fund.

We understand that this affects 13 LGPS Funds across England & Wales and the Local Government Association has been in contact with us and the affected administering authorities to gather some information about the impact of this on the LGPS.

We have been in discussions with all of the Administering Authorities that we advise that are affected by Carillion and we will be carrying out exit valuations and providing any additional advice and support as required. This is a very timely reminder of the importance of ensuring bonds and other security arrangements are up-to-date.

This isn't so much a fund issue as a scheme employer issue and we would encourage administering authorities to remind their scheme employers that it is their responsibility to ensure the appropriate bonds are in place. We have already been discussing with administering authorities what assistance we can provide.

## Scheme Advisory Board's (SAB) Tier 3 Review - update

The deadline for completion of the surveys regarding Tier 3 Employers (see our December Newsletter for more information) is 31<sup>st</sup> January so hopefully you have already completed it.

Following the sessions the project team ran at the Pensions Managers' Conference at Torquay we are running further sessions across the country to maximise the input from administering authorities. You should already have received an invitation but please let us know if not. Further information is set out above.

## Introducing the Townsend Group

Aon has recently announced the acquisition of The Townsend Group, a leading provider of global investment management and advisory services focused on property and real assets, including agriculture, forestry and infrastructure. As a leader in this space, Townsend offers private market funds, advisory services and a wealth of investing talent that brings an attractive new set of capabilities to Aon.

Townsend has 70 investment professionals who offer deep industry and global expertise in property and real assets. Their clients include many of the world's leading institutional investors, including large pension funds, foundations, endowments, corporations, government bodies, and financial institutions; and they serve clients in North America, Europe and Asia with offices in Cleveland, Hong Kong, London and San Francisco.

Property and real assets are among the alternative investments that have been a growing interest among institutional investors. Pensions & Investments published the results of a recent survey indicating the average target property allocation by global institutional investors has surpassed 10% for the first time. These asset classes continue to be a key component to helping trustees and other institutional investors achieve enhanced investment returns and better diversification.

If you're interested in how these added capabilities might benefit your investment strategy let us know.

## SAB academies project

Scott Campbell attended the first meeting of the Academies funding working group on 26 January with representatives from the other actuarial firms, LGA, DFE, GAD, MHCLG, administering authorities and academies. The main aim of this group is to look at potential options in relation to Academies from a funding perspective following the initial review by PwC. We'll keep you updated on this with any news we're able to share

## Update on section 13

Following discussions with John Bayliss of the Government Actuary's Department (GAD) just before Christmas we understand further work is being carried out to refine the metrics and confirm which administering authorities have flagged (red or amber). We understand that GAD plans to engage with administering authorities which have flagged over the coming months, with the timing and format of their engagement dependent on the number of flags and whether they are red or amber. We will provide further information to the Administering Authorities we advise as and when it becomes available.

## Update on cost management

Alison Murray attended a Cost Management Committee meeting on 29 January 2018. The main items discussed were the outstanding assumptions to be adopted for the SAB cost management process and proposals to improve communication and take-up of the 50:50 scheme for those who would otherwise opt out of the LGPS altogether.

The agenda and supporting papers from the meeting are available [here](#).

## Policies and strategies post-pooling

Many administering authorities will be busy at the moment with the annual business planning cycle. We would encourage all funds to ensure that a review of all policies and strategies is included within their plan for the coming year(s). This is best practice and ensures the documents keep up with the changing environment. It is particularly important this year with the implementation of asset pooling and all funds should ensure their existing policies and strategies remain workable once the funds start to transfer to the new arrangements. If you would like any help in reviewing your fund's policies please email our team by clicking [here](#).

## Spotlight: Covenant for LGPS Employers

I hope you saw our first spotlight of 2018 on Covenant for LGPS Employers which was circulated on 10 January.

The ability of LGPS employers to fund their liabilities is critical to ensuring the long term sustainability of LGPS funds and to protect other employers. Administering authorities are increasingly considering covenant, but what this actually means in practice and how it influences funding policy is highly variable. In the spotlight, we take a look at some of the key issues.

If you would like to know more about how Aon Hewitt can help you develop your approach to employer risk and enhance your risk management in general please do get in touch.

## Ministerial re-shuffle

As part of Prime Minister May's re-shuffle earlier this month the Department for Communities and Local Government is now the Ministry for Housing, Communities and Local Government.

Rishni Sunak has been appointed Local Government Minister, replacing Marcus Jones. We understand that representatives from the SAB are meeting him next Monday (5<sup>th</sup> February) and he has undertaken to attend the next SAB meeting when he is available.

We also understand that there has been an internal reorganisation within the Department and a new Deputy Director to which officials in Local Government Reform and Pensions will report, Sophie Broadfield (Deputy Director, Local Government Finance Reform).

Amongst other changes, Justine Greening was replaced as Secretary of State for Education by Damian Hinds. We don't yet know if that will have any effect on the Department's views in relation to academies' participation in the LGPS.

## Six key challenges for the LGPS in 2018

For those who didn't see this in Pensions Age, Alison Murray, Karen McWilliam and Colin Cartwright all contributed to an article on the challenges that LGPS funds will face in 2018. The 6 key challenges were identified as:

- Asset pooling
- Environmental and social governance
- Data quality/improvements
- Employer risk
- Appropriate resource and expertise
- Legislative change

You can find the full article, including commentary from Alison, Karen and Colin, [here](#).

## DCLG / MHCLG meeting

Alison Murray and Becky Durran attended a meeting with DCLG / MHCLG on 11 January in London. They had a useful catch up with officials on a variety of issues including an update from MHCLG on various initiatives and feedback from Aon on the day-to-day practicalities of working with the Regulations, and topical actuarial issues for administering authorities and employers. It was a helpful meeting and we have agreed to make these a regular occurrence so if any administering authorities have any particular issues they would like us to raise please do let Alison or Becky know.

## Norfolk framework expands to transition management and implementation

The Norfolk framework has expanded to include procurement of transition management and implementation services, transition execution services, and transition management advisory services.

See the article in professional pensions [here](#).

## Nomination forms and survivor pensions

The High Court has declared that requiring a nomination form before a cohabitee can receive a survivor pension under the Local Government Pension Scheme (LGPS) is unlawful.

In the LGPS England and Wales a nomination form hasn't been a requirement since 2014, so we expect the only potential impact of this judgement will be in respect of deaths which occurred between 2008 and 2014 where a nomination form hadn't been completed.

It's not clear at this point whether the LGPS regulations will need to be amended following this ruling, but given the recent news in this area we suspect there may be some simplification to the eligibility of survivor pensions in the LGPS in future years.

## Industry developments

### GMP indexation and equalisation

As you will have seen from our email alert last week, on 22 January 2018 HM Treasury issued its response to the 28 November 2016 "Consultation on indexation and equalisation of GMP in public service pension schemes". The consultation set out three possible solutions:

- Case-by-case: the member would be compensated up to the value of the loss of indexation only;

- Full indexation: providing full indexation on GMPs;
- Conversion: converts the GMP into a scheme benefit, equating £1 of GMP to £1 of scheme benefit.

The consultation response announced an extension to the current interim solution with full indexation on GMP now to be paid from public service schemes for those reaching state pension age on or before April 2021 (previously on or before 5 December 2018). Administering authorities wishing to understand the funding implications or needing help in communicating this change to members or employers should get in touch.

You can read the full consultation response [here](#).

More widely, legal action has been launched in the High Court with the aim of gaining legal clarity on whether GMP equalisation needs to take place, and if so what method should be applied. The case concerns Lloyds Banking Group Pensions Trustees Limited and three related schemes. The case is expected to be heard in 2018 and may provide some clarification.

## Upcoming Events

### CIPFA Audit & Accounting workshops

Alison Murray, Chris Darby and Joel Duckham will be presenting on employer covenant at the CIPFA Audit & Accounting Workshops on 30 January and 1 and 6 February respectively.

We hope to see many of you there. If anyone who cannot attend would like to see a copy of the slides do let us know.

### LGC Investment Seminar 2018, 1-2 March, Carden Park

A few of us from the Governance and Benefits Team and the Public Sector Investment Team will be in attendance.

## Blog spot

The latest articles from the Aon Hewitt Retirement and Investment Blog

- [Will "The Tax Cuts and Jobs Act" Have Unintended Consequences?](#)
- [Fourth Quarter 2017 Market Review and Outlook](#)
- [Weekly update - 15 January 2018](#)
- [Weekly update - 22 January 2018](#)

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