

Local Government Newsletter

September 2018

Welcome to the September 2018 edition of the newsletter. I hope you enjoy reading it.

Becky



People News

We have two new starters to announce this month, Mary Lambe and Peter Duckworth.



We're absolutely delighted that Mary Lambe is joining our team on 1 October as a Senior Benefits and Governance Consultant. Many of you will remember Mary from her days working with Cheshire Pension Fund or as a Pensions Adviser in the Local Government Association. Whilst at the LGA she had overall responsibility for the management and production of the SAB Pension Board guidance and she was integral to the development of central LGPS communications including the LGPS national websites. Since then Mary has been Head of Pensions and Infrastructure at Universities UK where she has been the lead employer representative on the USS pension reform amongst other things.

Peter is part of our graduate intake. He attended the University of Bristol, where he studied chemistry followed by a PhD creating antibacterial bandages to treat wound infection. Over the past year he has worked in the Bristol Dental Hospital before spending the summer hiking in Canada and Australia. Peter will be working on both public and private sector defined benefit schemes to ensure a broad experience of pensions alongside studying for actuarial exams. Outside of work, Peter enjoys cycling, rock climbing and outdoor swimming.



Talking points

Third Tier Employers' Project

Our report on the review of Tier 3 employers in the LGPS has now been published. It summarises the findings of our extensive engagement with stakeholders and sets out a wide range of possible options to address the issues raised. It doesn't include any recommendations and inclusion of an option doesn't mean it is something either Aon or SAB would necessarily support. SAB will be taking this forward and will establish a working group for this purpose. The report can be found on the [SAB website, here](#).

Section 13 GAD report

At the time of writing, we expect GAD to release their report on the 2016 valuations (as required by section 13 of the Public Service Pensions Act 2013) by the end of September. Watch out for communications about this in next month's newsletter and/or separately.

ONS publishes "Living longer – how our population is changing and why it matters"

The Office for National Statistics has [published](#) an overview of population ageing in the UK and its implications for the economy, public services, society and the individual.

This is a topical issue for local authorities as they try and manage the challenges of an ageing population alongside budgetary pressures.

Longevity is also an important consideration for the upcoming 2019 valuations for English and Welsh Funds, and we look forward to seeing the results of our Demographic Horizons™ longevity analysis of LGPS funds later in the year.

IAS19 – CIPFA consultation

CIPFA is [consulting](#) on changes to Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, with responses needed by 8 October.

The proposed code incorporates some changes to IAS19 which could impact on the IAS 19 pension accounting figures we provide for employers. In particular, the assumptions used for the profit and loss items on settlement or curtailment events or past service costs (which include transfers to academies, redundancy exercises and benefit changes) should be those as at the date of the event. This could mean additional calculations are needed to prepare the IAS19 figures, leading to additional time and expense.

We hope that materiality can be used to avoid extra work and calculations. Employers and/or administering authorities may wish to respond to the consultation to encourage CIPFA to adopt a proportionate and pragmatic approach, e.g. permitting local authorities to not apply the requirement of (existing) 6.4.3.14 (currently 6.4.3.13), or the new proposals, if doing so would not have a material impact on the amounts recognised.

If you would like any further information or help responding to the consultation, please contact [Chris Archer](#) or [Joel Duckham](#).

Industry developments

Supreme court ruling on unmarried mother

In a Supreme Court ruling, an unmarried mother has won access to a widowed parent's allowance after the death of her partner. Siobhan McLaughlin was initially refused the payment because the couple were neither married nor in a civil partnership. She claimed unlawful discrimination and originally won her case, but that decision was overturned by the Court of Appeal. The Supreme Court has now [found](#) in her favour, saying that the law is incompatible with the Human Rights Act. The DWP is [reported](#) to have stated that it will consider the ruling carefully.

Redress for non-financial injustice

With immediate effect, the Pensions Ombudsman has [published revised guidance](#) about redress for non-financial injustice caused by maladministration, introducing fixed amounts for non-financial injustice awards (commonly referred to as 'distress and inconvenience' awards).

Fire and Police Schemes

The [Police and Firefighters' Pensions \(Amendment\) Regulations 2018](#) have been laid, coming into force on 8 October.

The Home Office has [published](#) the Government response to the consultation on firefighters' pension schemes which ran from 16 April to 14 May 2018. The consultation dealt with amendments to the provisions for survivors' benefit in the Firefighters' Pension Scheme 2006.

What we've been talking to our clients about

Cost management and quadrennial valuations

As I am sure you will have seen, Treasury has issued draft amendments to Directions relating to the scheme valuations and cost management process for public service schemes for both [England, Wales and Scotland](#), and [Northern Ireland](#). GAD has also issued a [Technical Bulletin](#) and Liz Truss provided a [statement](#) to Parliament. In summary:

- Member benefits will have to rise and/or member contributions reduce where the cost cap floor has been breached (expected to be the case for the majority of schemes);
- Employer contributions to the unfunded schemes will rise (largely due to a reduction in the Scape discount rate);
- The LGPS in England and Wales has a separate SAB cost management process which we understand will be run through before the HMT process. It is likely to be a challenge to come up with a package which satisfies both processes;
- Scheme valuations for the LGPS will move to every 4 years. (It has subsequently been confirmed that the 2019 local funding valuations will go ahead);
- The cost management process itself will be reviewed to ensure the original objectives are met;
- There is a material reduction to the SCAPE discount rate from 1 April 2019 to 2.4% above CPI. As well as leading to increased employer contribution rates for the unfunded pension arrangements, we believe that the new lower rate will become effective for the calculation of actuarial factors in the LGPS from the date it is formally announced (probably in the autumn Budget), increasing transfers out and interfund payments. Once the change is announced, we assume that transfer and interfund calculations will need to be put on hold until new actuarial factors are issued. We understand that the change in the SCAPE rate will be taken into account in GAD's current review of factors used in the LGPS.

In general, reaction to the increased costs for the unfunded schemes has not been favourable, with warnings of [shortfalls to frontline services](#) and [school budgets](#).

College finances

There has been [recent press commentary](#) on falling budgets/financial pressure in relation to FE Colleges following a [report by the Institute of Fiscal Studies](#). It will be interesting to see to what extent that is evidenced by our analysis of 2017/18 accounts and forecasts (which will be finalised in Q1 next year) and whether college mergers and other action taken as part of the area reviews have strengthened the financial position of the sector.

We continue to take the view that administering authorities should consider whether all scheduled bodies should be considered equally long-term and secure employers when it comes to setting funding strategy, and consider using more sophisticated techniques than simply adopting a shorter deficit recovery period. If you would like our help in analysing the risk posed by your employers in support of your funding strategy please get in touch with [Joel Duckham](#) or [Chris Darby](#)

Responsible Investment

The LGPS and fracking has been [in the news a number of times](#) recently, and many funds are thinking about Responsible Investment (RI). The past year has been an incredibly busy one in the world of RI; regulators, investors and the whole industry have all stepped up their efforts, and at Aon we're incredibly proud of the work we are doing in this area. The table below sets out some of our latest developments and links through to our published material.

| Development | What is it? |
|--|---|
| Our fund manager ESG ratings | Our proprietary fund manager rating system designed to assess whether—and how well—buy-rated strategies are incorporating environmental, social and governance (ESG) considerations into their investment-decision making process. Guide to Aon's ESG ratings for fund managers |
| Our climate change projection scenarios | We have developed four alternative projection scenarios – from no mitigation to smooth transition to a green economy – and their potential impact on assets and pension scheme funding levels. We have been using these scenarios with pension schemes to provide context to discussions on climate change or give another perspective on risk when looking at investment strategy and asset allocation. Climate Change Challenges |
| DWP consultation and our response | The DWP have consulted on trustees' duty to consider "financially material" risks, including ESG and climate change, with potential changes to the Statement of Investment Principles. Aon has responded to the consultation. The DWP's proposals, if enacted, are wide-ranging and are likely to affect a large number of schemes. Consultation on Clarifying and Strengthening Trustees' Investment Duties: Aon Response |

| Development | What is it? |
|------------------------------------|--|
| Our global RI survey | Our first annual global survey on responsible investing was released earlier this year. We surveyed investors from across the globe (223 in total). The survey is intended to help you frame and contextualise your views and see how investors around the world are approaching this topic. Global perspective on responsible investing: report Global perspective on responsible investing: infographic 27 June 2018 webinar replay |
| Our quarterly RI newsletter | Our quarterly newsletter is here to help you stay up-to-date on important regulatory changes and guidance, industry initiatives and our latest service offerings. Responsible investment update: Q2 2018 |

Recent events

Cost Management, Benefit Design and Administration Committee

Alison Murray attended a meeting of this Committee on 30 August 2018. HMT's draft Cost Management Directions had not been published by the time of the meeting so the main topics of discussion included GAD's review of actuarial factors, a verbal update on progress with the SAB academies and Tier 3 reviews and future expected consultations (i.e. Fair Deal and HMT's Exit Cap). As neither consultation has been issued and it is now conference season, only time will tell if they will be issued before the end of the year. That appears to be Government's intention but Parliamentary time is short for obvious reasons.

LGC Investment Summit

Jonathan Teasdale was at Celtic Manor on 6/7 September, where the agenda very much reflected the significant progress on asset pooling since the previous summit a year earlier. Topics included infrastructure, ESG investing, the increasing impact of technology on the economy, and de-risking – looking just as much at the potential pitfalls of de-risking strategies as their benefits.

MHCLG Meeting to discuss the local valuation cycle

Alison attended a meeting with MHCLG and the other actuarial firms on 19 September following the publication of the draft Treasury Directions. MHCLG confirmed that the 2019 local funding valuations will still go ahead and that it is working on plans for how HMT's preference to move the LGPS local funding valuations onto a quadrennial cycle in future can best be implemented. Watch this space!

Upcoming Events

Public Sector Pensions Conference

Dan Kanaris, Joel Duckham and Chris Darby will be attending this Eversheds conference in London on 28 September.

CIPFA Annual Pensions Conference

We are delighted to be sponsoring [this event](#) on 22 November 2018, taking place in London at the Aon Centre, 122 Leadenhall Street.

The conference will look at how asset pooling will impact upon the investment governance of Funds and how this affects risk management arrangements (which are covered further in CIPFA's forthcoming new guidance in this area produced by Aon). There will also be a panel discussion with representatives of CIPFA's Pension Panel who will consider the changing role of Administering Authorities and the key challenges they are facing around resources, data management and new pooling arrangements.

Aon will present on the latest investment themes and Scheme Advisory Board Chair Cllr Roger Phillips will talk about the current SAB work programme and current challenges facing the LGPS.

CIPFA Investment Governance Workshops

Robert Shepherd will be attending in Manchester on 5 October, and Catherine Pearce and Mary Lambe will be attending in London on 8 October.

Blog spot

The latest articles from the Aon Retirement and Investment Blog

- [Weekly Update - 24 September 2018](#)
- [Debating Active vs Passive](#)

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