

Local Government Newsletter

April 2021

As the weather warms up and the Easter long weekend is behind us, this newsletter brings you updates on responsible investment, information about recent and upcoming training, as well as the latest news on RPI reform and mortality.

People News

Congratulations to Imla Ikram who gave birth to a little girl, Hawwa, this month. We look forward to meeting her when possible!



Industry developments

Aon's responsible investment survey

Environmental, social and governance (ESG) investing is high on the agenda for institutional investors. It is set to go higher still. The impact of ESG megatrends on the global economy and societies is widely understood; so too are the challenges and opportunities these megatrends present for investors.

However, there continues to be wide-ranging and differing investor views and attitudes towards responsible investing. Understanding these - and how the responsible investment landscape is changing - is a powerful first step for investors seeking consensus across their investment boards and committees.

For our third Global Responsible Investment Survey, we would like to hear from you!

- Where are you on your journey?
- What's driving your interest?
- Do you expect ESG considerations to drive your future investment decisions? If not – and you're not alone – we're keen to understand why.

The survey is open to all institutional investors, and we are keen to hear from LGPS funds. The survey should take about 10 minutes to complete. All responses are confidential, and the results and analysis will be published and shared with you this summer.

[Take the 2021 Global Responsible Investment Survey](#)

With your support, we hope to provide a comprehensive analysis and valuable insight into investor attitudes and helpful benchmarking for your future investment strategies. If you have any questions, or would like to discuss responsible investment more generally, please [get in touch](#).

The survey results, together with analysis, will be published this summer

Treasury Committee reports on "net zero"

The Treasury Committee has [published a report](#) on "Net Zero and the Future of Green Finance", setting out [recommendations](#) for how the Government can achieve

net-zero by 2050. On defined contribution pensions (i.e. AVCs in the LGPS), the report asks the Government to resolve the "apparent contradiction" that HM Treasury will not require default funds to move to greener alternatives but at the same time maintains that consumers should not have to switch out of the default fund to invest sustainably.

PLSA stewardship guide and voting guidelines 2021

In March the Pensions and Lifetime Savings Association (PLSA) published its [stewardship guide and voting guidelines for 2021](#). This annual publication provides practical guidance for pension schemes considering how to exercise their vote at annual general meetings (AGMs). This year the PLSA has focused on making sure the guidelines remain relevant amid the challenges posed by COVID-19 and a fast-moving regulatory environment.

This latest version warns that pension fund investors must be watchful this AGM season as to how company responses to the COVID-19 pandemic have affected their governance and workforce practices. The PLSA has also strengthened its guidance on what it expects from companies on reporting in line with the Taskforce of Climate Related Financial Disclosures; and confirms its position on virtual AGMs, and executive pay.

DWP call for evidence on social factors and pension scheme investment

The DWP is [seeking views](#) by 16 June on the effectiveness of occupational pension schemes' current policies and practices in relation to social factors.

The call for evidence explains that when considering environmental, social and governance (ESG) factors, action has tended to focus on climate change, and sets out the concern that social factors are not well understood. It says that social factors "are wide-ranging and will mean different things to different people". It sets out examples of factors that may involve financially material risks or opportunities:

- Practices within a company and its supply chain (e.g. health and safety, workforce conditions);
- Company products and selling practices (e.g. product quality and safety); and
- Companies in the community (e.g. community engagement, use of local workforces).

The DWP wants to understand whether current policies and practices on social factors are sufficiently robust, and what the government could do to help. It discusses how a failure to manage social factors may pose a risk

to scheme investments, or cause funds to miss important investment opportunities. Different approaches to considering social factors are mentioned—including the exclusion of investment in certain areas, social impact investing (intended to generate a positive impact), voting and engagement.

Mortality and COVID-19

The Continuous Mortality Investigation board has released their [latest quarterly report](#) on mortality and the impact of COVID-19. As expected, mortality was higher than average in the first quarter of 2021.

SAB has [published](#) mortality data to the end of November 2020. A detailed [mortality analysis](#) was carried out on sample funds by Aon and Barnett Waddingham last year, and SAB have now commissioned an update to this work.

RPI judicial review

The trustees of the BT Pension Scheme, Ford Pension Schemes and Marks and Spencer (M&S) Pension Scheme have confirmed that they are seeking a judicial review of the Government's decision to align RPI with CPIH from 2030. Depending on the outcome, this may have implications for funding and investments in the LGPS.

National Audit Office report on Public Service Pensions

The NAO has published a report setting out how the public service pensions landscape has altered since the 2010 Hutton Review and highlights key challenges for the future. The main recommendations made to the government in the [report](#) are to:

- develop plans to address the impact of the administrative challenge that its proposals in response to the McCloud judgment will have for employers and scheme administrators, so any changes can be implemented whilst maintaining a good level of service for members;
- resolve its concerns about the cost control mechanism and be open and transparent about the impact of any changes it makes for employers and scheme members;
- in conjunction with the Cabinet Office, work closely with employers to understand how public service pensions can best support their workforce planning, to ensure pensions are an effective tool in recruiting and retaining the staff they need;
- consider government's overall approach to ensuring that employees understand their pensions, particularly

for the three million scheme members affected by the McCloud judgment who will need reliable and timely information, including from scheme administrators, to make decisions about their retirement plans; and

- consider whether broader performance measures, covering affordability and its other objectives, would give it greater assurance that it is delivering its objectives for public service pensions. For example, it could collect and analyse information regularly on the rate at which some groups are opting out of schemes.

While the report is focussed on the unfunded schemes, some of the output from the recommendations may impact on the LGPS in due course.

Proposed changes to police and fire services

A [Written Ministerial Statement](#) was submitted to Parliament last month on part one of the Police and Crime Commissioner review, and also containing proposals on fire reform. It anticipates a white paper later this year on fire reform covering:

- Consulting on whether to mandate the transfer of fire and rescue functions to the Police, Fire and Crime Commissioner model across England.
- Consulting on how to address challenges where police and fire boundaries do not align.
- Legislating to create operational independence for Chief Fire Officers.
- Considering options to clarify the legal entities within the Police, Fire and Crime Commissioner model.

This could lead to changes to employers within the LGPS, and potentially bulk transfers or direction orders between funds where police and fire currently have different geographical boundaries.

What we've been talking to our clients about

Accounting training for employers

On 21 April Joel Duckham and Sam Ogborne ran a webinar training session on accounting for LGPS pension costs as at 31 March 2021. They covered a range of topics including:

- an introduction to pensions accounting and how to value a pension liability;
- a discussion on the hot topics for 2020/21 including the main LGPS developments which may need disclosing this year;
- a look at the typical outcomes this year, and
- frequently asked auditor questions.

The session proved to be very popular and so we are planning to run further sessions later this year for employers with July and August year ends. The session was recorded and is still available for employers to sign up to as a replay – for further information please contact [Joel Duckham](#).

Aon's new training offering for LGPS Committee and Local Pension Board members

Our new training programme aims to provide:

- newly appointed Pension Committee and Local Pension Board members with a **high - level introduction** to the management of the LGPS and the requirements of their new roles;
- newly appointed members with **subject specific** training; and
- existing members with **refresher training**

Our training for all members is focussed on the areas in the CIPFA knowledge and skills competencies framework, including the new framework and competencies for Committee members which is expected to be published by CIPFA next month.

Our summertime 2021 training series offers **interactive**, virtual sessions with fees charged on a per person basis but **capped for individual funds** ensuring a cost - effective approach.

We offer a whole range of other training-related services including:

- customised Fund-specific training
- support with developing or updating your Knowledge and Skills Policy
- Training Needs Analysis, which can be extended to consider the skills and/or diversity of the Committee or Board
- Training Records Model which produces certificates for members (individually or in bulk) at the touch of a button
- Training for pension fund officers

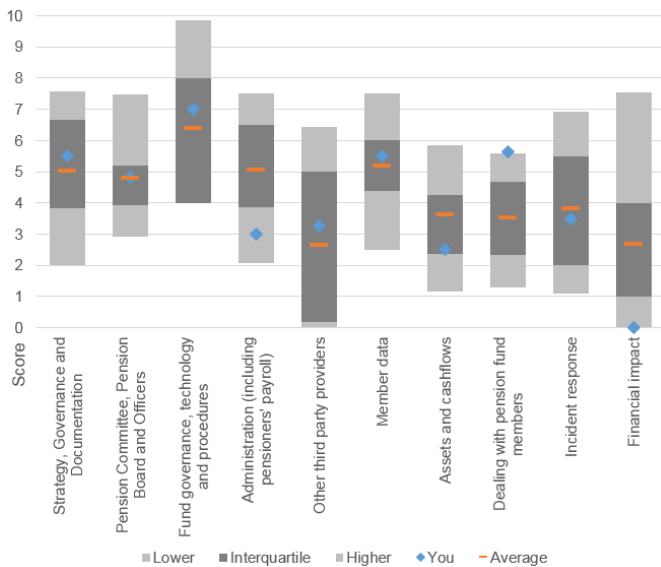
If you are interested in our summer 2021 training for your new / existing members and/or any of the other services set out above, and would like more information and/or a fee quote please contact your usual Aon consultant or email [Laura Caudwell](#).

LGPS Cyber Scorecard

In April we issued all LGPS funds who have taken part in the cyber resilience assessment to date with their free

benchmarking scorecard reports. The benchmarking is based on around 50 multiple choice questions, which assess your fund's cyber risk management measures in 10 key areas.

An example output chart from a sample report showing a fund's score relative to the pool of LGPS funds is provided below.



If you want to test your fund's cyber resilience relative to the other LGPS funds then you can click the link to the online questionnaire below. Alternatively please contact [Laura Caudwell](#) if you prefer to gather and submit responses via a spreadsheet.

Click [here](#) to test your fund's cyber resilience

Data specification and McCloud

It will be important at the next valuation to be able to place a value on the additional liabilities arising from McCloud, and we are aware that most funds have already started talking to their employers about the additional data needed.

Becky Durran has been attending calls with the other firms of actuaries to start discussing the changes that might need to be made to the universal data extract, with further meetings including GAD and the software suppliers to follow.

Recent events and meetings

Aon 2021 Virtual Pension Conference

This took place on 22-26 March, and recordings of the events can be found [here](#). Sessions which may be of interest for the LGPS include:

- Investing in the new normal

- The Diversification Paradox
- The power behind your capital: investing for a better future
- Strengthening scheme resilience
- Practical diversity & inclusion for pension schemes
- How data could save you millions!
- How will the pensions landscape reflect and readjust?

SAB Investment, Governance & Engagement committee

Mary Lambe attended the [Investment, Governance and Engagement committee](#) on the 19 April 2021 where the Committee discussed a number of ongoing [consultations](#) including TPR's new Code of Practice and DWP's call for evidence on social impact investment. There was also a [detailed update](#) from the new RI Advisory Group (RIAG) Chair Sandra Stewart which included details of the latest developments for the [RI A-Z website](#) which has just gone live.

TPR Consultation on new Code

Mary Lambe attended an industry roundtable on the 15 April 2021 to discuss TPR's consultation on the new Code of Practice for schemes including the LGPS. The [consultation](#) on the new Code closes on 26th May 2021, if you would like help responding to the consultation, or support in planning for a review of your fund's compliance in anticipation of the new code going live, please contact [Mary Lambe](#).

Upcoming events

PLSA Local Authority Conference 18-19 May

Alison Murray and Jonathan Teasdale will be presenting "Covid-19: a legacy for the LGPS" at this conference next month, including a discussion on how COVID has impacted (or may impact) life expectancy, employer need for the new flexibilities, cyber risk, business continuity and wellbeing of staff and members. Laura Caudwell will also be in attendance.

Research and Publications

The latest research and publications by Aon: -

- [Quarterly Investment Outlook](#)
- [The benefits of ESG integration](#)
- [Week in markets \(25 April\)](#)



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