

# Shadow Advisory Board

## **Scheme Advisory Board for the Local Government Pension Scheme (LGPS) in England & Wales - 2015/16 Work Programme**

### **1. Introduction**

This paper outlines the planned work programme for the LGPS statutory advisory board (SAB) in 2015/16, its first year of operation. The items included in the work programme are those which the Shadow Advisory Board believe are a priority for the LGPS in England & Wales in the coming year and the content of the work programme has been driven by four main sources:

- matters that the Statutory Advisory Board has a statutory requirement to fulfil under Scheme regulations (for example, providing guidance to administering authorities, the cost control process),
- matters upon which the Shadow Board have been asked to take forward by Government (for example, the scheme annual report, the deficit management project),
- matters that the sector has raised as important for the Scheme (for example, guidance on the Pensions Regulator's code of practice), and
- matters that the Shadow Board itself deems as priorities for the Scheme in order to improve its governance and long term sustainability (for example, value for money guidance, knowledge and understanding guidance).

In addition to outlining the work planned for the year ahead, this paper seeks to outline the budgetary requirements for each area of work planned in order to take these matters forward.

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## 2. 2015/16 work programme

Task	Description	Delivery
<b>Deficit management</b>	<p><b>Background</b> The Shadow Board commenced its deficit management project in Summer 2014 following a request from the then Minister for Local Government Brandon Lewis that the Board make innovative proposals on this topic. At its December 2014 meeting, the Shadow Board agreed a comprehensive work plan in order to improve the management of Scheme deficits on a lasting basis using best practice from across the pensions landscape. See the SAB's deficit management work programme for details</p> <p><b>Anticipated outcomes</b> The SAB's recommendations are intended to lead to a fundamental development in how the LGPS manages its deficits. Best practice guidance will aid funds in tackling deficits and working with their employers to ensure these are better managed. Recommendations for where intervention may be necessary will seek to ensure that where deficits exist that aren't being managed properly, appropriate steps are taken to make lasting improvements in those minority of funds.</p>	<p>Throughout 2015/16 (see separate deficit work plan for breakdown)</p>
<b>Cost control</b>	<p><b>Background</b> A fundamental aspect of the public service pension scheme reform package implemented in 2014 and 2015 is the need to review the costs of the benefits structures on a periodic basis. Under the LGPS Regulations 2013, the SAB has a statutory function to manage an LGPS-specific process for reviewing the costs of the Scheme.</p> <p><b>Plans for 2015/16</b> To commission a dry-run of the LGPS Future Service Cost (FSC) cost control process based on agreed assumptions in order for the delivery of an accurate baseline of the Scheme's costs.</p> <p><b>Anticipated outcomes</b> The dry run of the cost control process will be vital to obtain an accurate baseline for the LGPS cost control process so that consistent comparisons may be made when the cost control process proper is undertaken for the first time in 2016.</p>	<p>Q2 2015/16</p>

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<p><b>Knowledge and understanding guidance</b></p>	<p><b>Background</b> The role of councillors in local decision making is a fundamental part of the LGPS's governance structure and ensures that there is local accountability for the decisions made. In this role, councillors have a stewardship role for the Scheme's assets and their decisions have real consequences for a fund's performance. However, most councillors join pensions committees without a pensions background. The need for guidance to assist members of pensions committees in gaining the requisite knowledge and understanding needed to carry out this role is therefore crucial.</p> <p><b>Plans for 2015/16</b> To utilise available Scheme and legal expertise to draft and publish knowledge and understanding guidance for pensions committee members. This would operate as a standalone resource to complement the training and development already provided by the administering authority.</p> <p><b>Anticipated outcomes</b> A comprehensive piece of guidance will aid the governance of the Scheme by giving officers and councillors a clearer understanding of the knowledge and understanding required by a pensions committee member. In the funds where there are pensions committee members with gaps in their knowledge and understanding, there should be consequential governance improvements.</p>	<p>Q3 2015/16</p>
<p><b>Separation of lead authority from pension fund</b></p>	<p><b>Background</b> A frequent point noted in respect of the LGPS's governance arrangements is the fact that in many funds, the lead employing authority is also the administering authority. Concerns are sometimes raised that this could give rise to conflicts of interest within the administering authority and that governance arrangements could be amended to lead to clearer separations between the two sets of responsibilities.</p> <p><b>Plans for 2015/16</b> To research further the desirability of bringing about greater separations between the host authority and the pension fund amongst a spectrum of options that could be adopted.</p> <p><b>Anticipated outcomes</b> A clearer picture should emerge of the further separations that could be considered and the advantages and disadvantages of pursuing any one of them. This would provide the background research for the Secretary of State's consideration as to whether further separations should be put in place, and what would be needed to get us there.</p>	<p>Q3 2015/16</p>

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<p><b>Value-for-Money guidance</b></p>	<p><b>Background</b>                  Previous Government consultations have highlighted the costs of the management and administration of the Scheme in financially straitened times, and in particular, the desire to see more collaboration in the LGPS in order to achieve greater value for money. This is a matter that the Shadow Board feels very strongly about and it hopes to utilise the SAB's unique position within the sector by taking a lead on this issue.</p> <p><b>Plans for 2015/16</b>                  To publish value for money guidance for funds that will provide a single source of information for funds on the available collaborative opportunities in the LGPS and to outline the principles that could be adopting in achieving greater value for money from investment managers, actuaries, legal advisers, etc.</p> <p><b>Anticipated outcomes</b>                  On adoption of this guidance, the Scheme will have access to a detailed resource outlining means via which funds can achieve better value for money. In the longer term, this should lead to lasting improvements in the value for money being obtained by funds.</p>	<p>Q3 2015/16</p>
<p><b>Scheme annual report</b></p>	<p><b>Background</b>                  The development of a national report was undertaken by the Shadow Advisory Board at the request of the then Minister with responsibility for the LGPS, Brandon Lewis, and the first report for the 2012/13 Scheme year was published in November 2014. The second report, for the 2013/14 Scheme year, builds on the content of the 2012/13 report and is anticipated to be published in the coming months.</p> <p><b>Plans for 2015/16</b>                  To compile the 2014/15 report and commence planning for 2015/16. The 2014/15 report will be the first to include a performance measurement framework on a fund-by-fund basis and pilots are planned for the coming months in order to ensure that this works at a practical level.</p> <p><b>Anticipated outcomes</b>                  Comparable data at a fund level will be a crucial step towards the development of a robust transparent data set for the LGPS as a whole. Gaps in the available data have been noted for years, not least in the Call for Evidence launched by the Government in June 2013. The continuing publication of the national scheme report will lead to fundamental improvements on the available data for the Scheme.</p>	<p>Q4 2015/16</p>

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<p><b>Engagement guidance</b></p>	<p><b>Background</b> The LGPS in England &amp; Wales is a highly significant institutional investor, with over £190bn in assets at the end of 2013/14. Taken together, the assets of the Scheme give the sector an unusually rich opportunity to improve the value of its investments by pro-actively engaging with the organisations it invests in. However there are a variety of approaches to engagement adopted within individual funds, with some engaging only minimally.</p> <p><b>Plans for 2015/16</b> To publish best-practice engagement guidance that outlines how funds could engage and gives advice as to how to achieve the best value from that engagement.</p> <p><b>Anticipated outcomes</b> Firmer engagement guidance should lead to a more structured approach to engagement by LGPS administering authorities and the encouragement of a collective approach to engaging across the LGPS. Both should lead to better relationships with the companies invested in and improved value for the Scheme as a long-term investor.</p>	<p>Q4 2015/16</p>
<p><b>Guidance on the Pensions Regulator's code of practice</b></p>	<p><b>Background</b> From April 2015, The Pensions Regulator will take on its widened remit in the governance and administration of public service pension schemes with its Code of Practice for public service pension schemes becoming effective from that date.</p> <p><b>Plans for 2015/16</b> To publish guidance for administering authorities on how to interpret the Regulator's code for the LGPS. To include guidance on the data requirements of the Regulator, including providing practical assistance with data cleaning and monitoring.</p> <p><b>Anticipated outcomes</b> Guidance should provide for a clear approach for the LGPS in ensuring compliance with the Regulator's code. Practical guidance in respect of data will provide for greater consistency in approach from LGPS administering authorities and lead to cleaner, better maintained data.</p>	<p>Q4 2015/16</p>