

# Conference highlights

LGA Governance Conference (19-20 January 2023)



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Chaired by Jo Donnelly, head of pensions at the LGA.

The 2023 LGA Governance Conference took place in Cardiff on 19<sup>th</sup> and 20<sup>th</sup> January and was attended by a mix of in-person delegates and remote attendees.

## Day 1 - Welcome from the Chair

### Joanne Donnelly, LGC

- Jo welcomed all delegates to the conference and trailed the range of interesting speakers on a variety of topics relevant to LGPS practitioners.

## Keynote address – Good complaint handling

### Alex Robertson, Chief Operating Officer, The Pensions Ombudsman

- Alex set out the approach taken by the Pensions Ombudsman in handling complaints and, specifically, the approach to early resolution whereby customers are encouraged and supported to seek the answers to their own queries.
- Important to acknowledge what customers actually want. In most cases, simply an apology, for things to be put right, and to help ensure that others are not affected by the same issue.
- Biggest category of complaint from LGPS members is in respect of ill health decisions made by employers. The Pensions Ombudsman does not question the advice received from medical experts, but they do examine the processes leading to a decision.
- Alex then offered guidance on how pension schemes can avoid the Pensions Ombudsman, and highlighted the importance of clear member communications in this.
- Alex wrapped up with a call to action – highlighting the important work done by volunteers (specifically, in supporting early resolution) and he encouraged the pensions professionals in the room to consider volunteering for the Pensions Ombudsman.

## Scheme Advisory Board update

### Jon Richards, Unison and SAB vice chair

- Prior to this session, a video address was shown from Lee Rowley MP, the Local Government Minister. The Minister expressed optimism about what the LGPS and Government can achieve going forward.
  - The minister set out his key priorities; chief amongst these was the need for the LGPS to manage risk and seize opportunities given the significant geopolitical shocks on the horizon. Being vigilant on this will help ensure the LGPS remains sustainable and healthy going forward.
  - The Minister finished his address by highlighting the work done by the SAB to improve the governance and administration of the LGPS and commented on the great value he places on the support of the SAB in carrying out his role.
- Jon then provided an update on the work done by the SAB to support the LGPS, specifically, the ability of the SAB to create a trusted forum in which a single recommendation was presented to Government in response to the cost floor breach in 2018.
- His ambitions for the future recognise that the level of scrutiny on LGPS Funds will only grow, but he believes the LGPS is well placed to step up to these challenges. A particular challenge will be addressing low take up across younger potential members; the benefits of the scheme should be made clearer to this group.
- On investment pooling, he noted that a lot of effort has been put into this to make it a success. There are justifiable criticisms and some success stories. The SAB will continue to seek to make the pooling model work for the LGPS.

## The member and employer view – panel session

### George Georgiou, GMB; Emelda Nicholroy, UCEA; Cllr John Fuller, LGC; Jon Richards, Unison

- Emelda explained some of the issues around the different treatments applied by LGPS Funds in the case of Universities. This leads to confusion and a belief from these employers that certain funds are being more penal than others. Consistency is difficult to achieve but Funds should be aware that Universities talk to each other and that they are genuinely open to discussing novel funding solutions.
- Jon commented on communication standards in the LGPS with the headline 'it varies'. He highlighted the lack of communications with deferred members and dispersed employers.
- In George's view, LGPS members understand the value of the benefits provided by the LGPS, specifically that they will not 'get rich' from their LGPS pension but that they will receive a decent and fair pension. GMB put a lot of effort into convincing members to join and remain in the scheme.
- On asset pooling, John added to the earlier comments from Jon that the LGPS needs to make asset pooling work. There is a question mark over the savings that have been delivered, and whether the scale achieved provides any particular benefit to the LGPS and UK plc, although there is a solid foundation to build on.

## How to keep on the right side of the law

### Kirsty McLean, Squire Patton Boggs

- Kirsty explained the benefits that the Pension Dashboard will bring and highlighted the need for LGPS Funds to be engaging with this now, not least due to the fines in the event of non-compliance.
- On the matter of pension transfers, she highlighted the inconsistencies between guidance from the Pensions Regulator on paying non-statutory transfers (such as those with anti-scam 'red flags') and the fact that the LGPS cannot pay a non-statutory transfer. The implications of this may lead to member benefits having to be reinstated.

- Kirsty then noted the difficulties in defining 'incentives' and overseas investments when looking for signs of a pension scam.
- She finished up with a warning in respect of the Retained European Union Law Bill and the fact that over 4,000 items of EU-derived subordinate legislation could disappear from the statute book on 31 December 2023 unless preserved in UK law by a Minister or Devolved Authority prior to then.

## Responsible investment

### **Steve Lee, Ninety One; Edwin Whitehead, Redington; George Graham, SYPA**

- Steve opened the discussion by setting out the huge task facing Elected Members in looking at the climate impact of investments, in trying to understand the carbon footprint of their Funds, and setting a target date to become net zero. No Elected Member stands for office in order to sit on a Pension Committee and this is a very complex area. In Steve's experience, Elected Members bring common sense to these discussions.
- George set out the South Yorkshire Pension Authority's approach to Responsible Investment, explaining how the Authority starts from the position that Responsible Investment should do no harm when the Fund invests. Specifically, a 'good company' is one which treats workforce and communities well.
- Edwin acknowledged that there is no single one correct approach to Responsible Investment, but encouraged Funds to approach this by understanding the purpose of their investments i.e. to pay pensions through the prudent management of risk whilst mitigating the impact of this on the real world.
- How should Funds react to local activism? George noted that many officers and committees are engaging with activists and listening to their concerns and ideas. Maintaining a polite and respectful relationship and recognising the legitimacy of their views helps Funds understand the human dimension of investment decisions.

## Day 2 – Welcome from the Chair

### **Joanne Donnelly, LGC**

- Joanne welcomed delegates to day 2 of the Conference and highlighted the very excellent after dinner speaker from the night before.
- Nigel Owens brought humour and humility to the Conference and we were very grateful to hear of both his personal experiences and those as an international rugby referee.

## Keynote address

### **Nick Gannon, The Pensions Regulator**

- Nick opened by listing the 'tsunami' of regulatory challenges coming down the line, including the new single code of practice, the pensions dashboard and managing cyber risk. On cyber risk, the LGPS is a very large and important scheme and so will be in the crosshairs of cyber criminals.
- On the single code of practice, Nick is confident that the LGPS will respond well to this. The single code brings together 10 existing codes and well-run pension schemes should not be concerned. To the relief of Conference, Nick confirmed that the new code is a lot tidier than the version released for consultation!
- Nick advised Elected Members to focus on Governance and Administration. Whilst processes will vary at individual Funds, these should be slick and do what they are designed to do. On Administration, Nick suggested that good administrators should be cherished.

## Fund valuations 2022 – panel session with:

**Michelle Doman, Mercer; Jonathan Teasdale, Aon; Steven Scott, Hymans Robertson; Melanie Durrant, Barnet Waddingham**

- Michelle provided an overview of the key drivers leading to improved balance sheets at the 2022 valuation, specifically, strong investment returns, and highlighted how the main driver of costs is now the cost of benefits (i.e. the Primary Rate), which has generally increased at the 2022 valuation.
- Jonathan followed up on this by explaining how post valuation experience has influenced the contribution rate setting process, noting that inflation uncertainties remain, asset values have come down and emerging pessimism around the strength of the economy may lead to concerns around employer covenant.
- Melanie explained how the number of LGPS employers has continued to increase and the challenges this brings to Funds. An overview of the employer flexibilities now available in the LGPS was also provided and Melanie noted that recent market changes have led to many Deferred Debt Arrangements being concluded earlier than expected.
- Steven set out the key post valuation actions for LGPS Funds, specifically 1) continue to evolve funding strategies so these remain fit for purpose in the changing economic environment, 2) put robust monitoring processes in place, and 3) continue engaging with participating employers to take advantage of emerging opportunities.

## The administration challenge – panel session with:

**Kevin Gerard, Dyfed Pension Fund; Lorraine Bennett, LGA; Ian Colvin, Hymans Robertson; Catherine Pearce, Aon**

- Lorraine highlighted some of the upcoming policy challenges specifically the McCloud remedy and the expectation that legislation will be provided in October 2023, along with supporting guidance and a further consultation on the detail (including the tax treatment of rectification payments). She explained the need for all leaver calculations to be reviewed as part of the McCloud rectification and highlighted how the manual nature of these checks will cause issue for Funds, not least from a resourcing perspective. It now seems likely that DLUHC will consult on moving the date that CARE benefits are revalued to match the revaluation date for Annual Allowance purposes.
- Kevin then set out how the Dyfed Pension Fund has restructured its admin teams to deal with the current pressures and explained the benefits of having separate teams looking at different aspects of the administration service. He also highlighted some of the issues facing his team following the emergence of agile working, specifically working from home. The market for experienced LGPS administration staff is now UK wide and geographical location is no longer a barrier for staff looking for new opportunities.
- Catherine explained the important role Committees and Boards have in advancing improvements in administration matters. It can be tempting for Elected Members to focus on investment topics, but it is a basic necessity of the Fund to pay correct pensions to members and so there should be appropriate focus on administration matters at meetings.
- Ian then set out the key findings from Hymans Robertson's [2022 National Knowledge Assessment](#). 16 Funds took part in the survey and there were over 200 participants. The results of this survey can help participating Funds understand where to focus training and, at a national level, the results provide an encouraging baseline of knowledge across LGPS Committees and Boards.

## The Good Governance project

### Ian Colvin, Hymans Robertson; Jeremy Hughes, LGA

- Ian began by giving the background to the SAB's Good Governance Review. The intention behind the Review was to identify enhancements to LGPS governance while maintaining strong links to local democratic accountability.
- The exercise was a collaborative one, involving views from as wide a range of LGPS stakeholders as possible. There were 3 Good Governance reports in total which are all available on the SAB's website. Recommendations covered several key areas including conflicts of interest, knowledge and understanding, representation, service delivery, and compliance and improvement.
- Jeremy then provided an update of where DLUHC are in terms of taking forward the Good Governance recommendations. Discussions with department officials appear to be progressing and there is a will to take forward most of the recommendations. Ministers are keen to be reassured that the LGPS is in safe hands, so documenting best practice, centralised KPIs and training and skills are a priority.
- A workforce strategy is likely to be introduced to help Funds plan their resource needs and recruit and retain staff.

## Investment outlook

### Atul Shinh, Ninety One

- Atul explained the reasons for recent poor asset performance, noting that in 2021 investors were exuberant (as evidenced by the relative value of Tesla to other car companies, the price of bitcoin and the emergence of NFTs). 2021 also saw the emergence of supply side shocks following the reopening of the world economy.
- Atul continued by explaining the impact of the war in Ukraine on inflation in the west and how the policy response to this (raising interest rates) has led to a deterioration in economic growth in western economies.
- The future is uncertain, and interest rates may continue to rise in 2023, depending on the path of inflation and recession is just round the corner. Significant geopolitical risks remain and the relationship between the US and China has deteriorated which may drive high inflation due to reduced reliance on globalisation.
- The work required to deal with climate change may also be a driver of inflation. Governments are now financing initiatives to combat climate change and the amounts required to effect change are huge.
- In terms of finding investment opportunities in this environment, Atul noted caution around US / UK / EU equities and expressed positive sentiments around Asian (China) and Emerging Market equities. When investing in these markets, Atul noted the importance of being selective.

## Closing remarks from the Chair

### Joanne Donnelly, LGA

- Joanne wrapped up the conference by thanking the various individuals who make these events possible and highlighted a major theme of conference – administration is the bedrock of all that we do and it is important to get this right.
- Joanne informed delegates that the 2024 conference will take place in York on 18th and 19th January.

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