

Scheme Advisory Board

HYBRID MEETING – 20TH FEBRUARY 2023

ITEM 3 – PAPER A

ACTIONS AND AGREEMENTS

HYBRID MEETING HELD ON 5TH DECEMBER 2022 – 1.00pm

PRESENT

Cllr Roger Phillips	Chair
Jon Richards	Vice-Chair (UNISON)
Cllr Yvonne Johnson	Scheme Employer Representative (LGA)
Cllr John Beesley	Scheme Employer Representative (LGA)
Cllr John Fuller	Scheme Employer Representative (LGA)
Emelda Nicholroy	Scheme Employer Representative (UCEA)
John Neal	Scheme Member Representative (UNITE)
George Georgiou	Scheme Member Representative (GMB)
George Graham	Practitioner Representative (SYPA)
Nick Kirby	TUC
Joe Dabrowski	PLSA
Matt Gurden	GAD
Duncan Whitfield	ALATS
Teresa Clay	DLUHC
Gary Delderfield	Eversheds Sutherland
David Murphy	NILGOSC
Joanne Donnelly	LGA – Board Secretary
Jeremy Hughes	LGA – Deputy Board Secretary
Lorraine Bennett	LGA – Senior Pensions Adviser
Bob Holloway	LGA – Pensions Secretary
Ona Ehimuan	LGA – Pensions Secretary
Gareth Brown	LGA – Pensions Analyst

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Item 1. Welcome, apologies and introduction

1. Apologies for absence were received in advance from Cllr Andrew Thornton, Cllr Christopher Weaver, Kimberley Linge, Chris Tansley and Garry Warwick. Apologies were received from Bridie McCreesh after the meeting.
2. The Chair informed members that Michael Gove MP had been re-appointed Secretary of State for Levelling Up. Lee Rowley MP had been appointed as Local Government Minister and was scheduled to meet with Cllr Phillips on December 7th, 2022.

Item 2. Meeting Protocol and Declarations of conflicts of interest

3. None were raised.

Item 3. Actions & Agreements from 10th October 2022 meeting (Paper A)

4. The minutes of 10th October meeting were agreed.

Item 4. SAB Workplan and Budget

5. Jeremy Hughes (JH) introduced Paper B to the Board. The budget for 2022-23 was still awaiting approval from the Minister; the levy request could not be issued to funds until this had been done. The Secretariat hoped that the budget would be approved before the end of the calendar year; clearance is usually received in late summer/early autumn.
6. There was expectation of significant upwards pressure on the levy for 2023-24 due to various active items on the workplan for the new year, many of which were continuations of work from this year. Significant pieces of work included climate risk reporting, pooling, and the return of Levelling Up commitments. There were also workstreams from the Compliance and Reporting Committee (CRC) that were expected to require substantial resources, such as the separation of pension fund accounts and the knowledge and skills framework.
7. Owing to Bob Holloway's impending retirement, the Secretariat would need to recruit another staff member to maintain current capacity levels. The Secretariat was also seeking to reallocate more of Joanne Donnelly's (JD) Head of Pensions salary from the LGPC to the SAB budget to reflect her current role more accurately. This would be a downward pressure on the LGPC levy for next year, but again work was ongoing to finalise that.
8. There had also been the approval of additional expenditure for improvements to the Code of Transparency online reporting tool,

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which will need to be funded via the levy along with the ongoing annual financial commitments to the system.

9. JH explained that a definite figure will be brought to the next Board. Cllr Phillips confirmed that he would discuss the approval of the current year's SAB budget at his meeting with Lee Rowley MP and said that there were significant pressures on the budget which all bear importance.
10. George Graham (GG) asked for an indication of how big the increase might be; JH explained that final figures are yet to be established but there could potentially be an increase of 20-30% in the levy next year, some of which would be one-off costs. GG explained that it could be useful to communicate this with officers in the meantime, so they are aware of the projected increase – especially for those funds for which the LGPS administrative function was a significant part of the overall authority running costs.

Item 5. Agenda Steering Group Update

11. Joanne Donnelly (JD) introduced Paper C to the Board. On reporting standards and consistency, the reports published by funds varied greatly suggesting that there was varying interpretation of published guidance. DLUHC said that they would like the Board to assist with monitoring compliance. Members felt that it was important to remember that the Board does not police funds and could risk the relationships built with funds if actions of this type were taken.
12. The Board's role to date had been to publish headline figures on the annual reports along with links to those reports that were available publicly. Due to the auditing issues that funds sometimes face, some of the reports linked on the SAB website were unaudited reports. Gareth Brown (GB) confirmed that the majority of the reports were audited but there were some authorities who had not produced audited reports for more than one year. The Chair asked GB to provide up to date figures on annual report compliance to the Board.

Action – GB to provide update to the Board of which annual reports had been submitted and which included audited data

13. The Board felt that it would be better to encourage compliance but leave the responsibility of enforcing compliance with the Department. The CRC was looking to streamline the guidance available and make it more accessible, which may help improve compliance and consistency. The Board felt that it would be good to provide funds with examples of best practice as opposed to singling out those who may not be complying as a first step towards encouraging higher standards.

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14. On MIFID II, Joe Dabrowski (JDa) informed the Board that he had given evidence to the Work and Pensions Select Committee on the recent liquidity crisis affecting some pension schemes and had informal conversations with the Financial Conduct Authority. He expected there to be a greater emphasis on asset managers to ensure adherence to the MIFID II “opt up” provisions that apply to LGPS pensions committees.
15. On Climate Risk Reporting, it was agreed to publish a statement to manage expectations around how accurate and comprehensive LGPS funds first reports could be. The quality of data that will be available to funds in the early years of this endeavour will limit the reliance that can be placed on reports and will make the process of aggregation into a scheme level report very challenging. Climate risk reporting was welcomed by the Board and felt to be undoubtedly worthwhile despite these initial difficulties.
16. Councillor John Fuller (JF) highlighted the difficulty in collecting Scope 3 emissions data in particular and expressed support for the publication of a statement to manage expectations.
17. JH explained that RIAG members had in their discussion shied away from supporting setting specific targets at this stage and decided that it would be better to focus on “ambitions” and the approach to be taken going forward. Over-reliance on partial data could carry the risk of misallocation of capital.

Item 6. McCloud and Exit Pay

18. On McCloud, LGPC and SAB had met with its working group and drawn up guidance which was being reviewed by lawyers. Timings for DLUHC’s work on this issue had unfortunately been pushed back since the last meeting; Teresa Clay (TC) confirmed that a response to the last McCloud consultation was not now expected before the new year. There was still an expectation that there will be a further consultation on issues not addressed by the initial consultation in the new year. It was now expected that the new regulations would be in place before the summer recess. The Department will reconvene its working group on McCloud remedy implementation in the new year and will seek LGPC/SAB input.
19. On exit pay, SAB had responded to Treasury’s consultation, but Government had not yet indicated a timeline for its response or next steps in local government.

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Item 7. SAB Committee Membership

20. BH updated the Board on committee membership. He said that Councillor Christopher Weaver's Board membership was awaiting approval from DLUHC. John Cornett (Audit Scotland) was no longer a member of the Compliance and Reporting Committee and had been replaced by John Boyd (Audit Scotland). The Board also approved Oliver Simms (Institute of Chartered Accountants in England & Wales) joining the CRC as an observer.

Item 8. Risk Register

21. Ona Ehimuan introduced Paper D to the Board. The first iteration of this register included the Scoring Matrix, Risk Heat Map and the Risk and Mitigation Register and could be found at Annex A. The document remained a "work in progress" and would be developed further in line with any comments from the Board in relation to the format, the kinds of risks that it should cover and the suggested mitigations.
22. EN commented that there could be a need to review the scoring matrix to ensure that the 'red, amber, green' system effectively represented identified risks. Currently she felt that the "green" area was too expansive and some of it should be coloured "amber". JF suggested that there could be an additional risk that guidance issued by SAB could be wrong or misinterpreted, leading to legal risk. JH explained that all Board statements and guidance are reviewed and where necessary checked by legal counsel before publication. It was agreed that the comments made by Board members would be considered in the next iteration of the risk register.

Item 9. Good Governance Review

23. BH delivered a verbal update to the Board. The Department had held meetings of its working group; the most recent meeting was held on 29th November 2022. The Department's plans included the streamlining of the annual report document, with funds reporting their performance against their various strategies (rather than just reproducing their strategy statements). There were also plans for more formal training requirements for pension committee members to demonstrate the necessary knowledge and understanding to fulfil their functions. The Department had also signalled a desire to develop a standard set of administrative KPIs that should be used across funds to allow comparisons of relative performance. The timetable for delivery of the Department's consultation on this was yet to be confirmed but would happen in 2023.

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24. JH reminded the group that the Department's proposals were likely to include the need for funds to have a workforce strategy. He felt that it would be for the Board, LGPC and LGA to work out what opportunities that presented. At the recent LGPS pension managers conference in Torquay, there had been further discussion of an LGPS-specific apprenticeship programme which might help to bring in and bring on talent in the pensions administration function. More exploratory work on this was needed and would be reported back to the next meeting.
25. The Chair welcomed the update and the work being done by the Department.

Item 10. Compliance and Reporting Committee Report (Paper E)

26. Mark Wynn (MW) introduced Paper E to the Board and thanked the Secretariat for the work done to advance the committee's workstreams. All of the workstreams were now underway and had either already had or were soon to have their first meeting. There were a host of volunteers on these workstreams who had already made invaluable contributions. MW's priority now was to ensure that these working groups had clear delivery plans and that, where relevant, links were made between them.

Item 11. Cost Management Committee Report (Paper F)

27. George Georgiou (GGe) gave an overview of the proposals from GAD on scheme level assumptions for the cost control mechanism and the standardised valuation assessment. These were accepted by the Board.
28. On the Gender Pensions Gap, the Board gave approval for GAD to provide some initial analysis by mid-January. The Cost Management Committee would then agree the scope of the more detailed analysis of factors which may be driving gender differences next year. The cost of the work was approved and would be recouped through the levy next year.
29. The Secretariat reported that it had collected data from funds on members opting out from the Scheme and was in the process of analysing the returns. These would be reported to the Cost Management Committee at its next meeting.

Agreed – that the Board approved GAD to provide some initial analysis on the gender pensions gap by mid-January and more detailed analysis of factors which may be driving gender differences later in the year

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Item 12. Investment Committee Report (Paper G)

30. Councillor Yvonne Johnson (YJ) introduced Paper G to the Board. The Board was given an update on compliance with Code of Transparency reporting, which had risen to 89% for 2021/22 as of November 2022.
31. A discussion was had about the next steps to be taken with the Code of Transparency online reporting system. As agreed at the previous Board meeting, the development of quarterly reporting of data and integrating email reminders to complete templates, with the associated expenditure, had been approved by the Board Chair. It was now necessary to ensure that funds and pools are aware of and are deriving maximum value from the system's current functionality.
32. The Investment Committee would be developing proposals to improve awareness of the system via a communications and awareness strategy potentially including the development of a user manual, specific training for users and measures to improve general awareness of the importance of cost management and the role the online system plays in that. The Board agreed and noted this update.

Item 13. AOB and date of next meeting

33. On Sharia Law, JH informed the board that following the advice given by Counsel, the Secretariat had held discussions with two reputable sources in the Islamic Finance sector. Both believed there was sufficient separation of the pension promise from investment activity to support the view that the LGPS was Sharia compliant from the member's point of view. It had also been suggested that further comfort would be given to Islamic members if it could be demonstrated that the proportion of investment assets which were acceptable from a Sharia point of view were more than sufficient to match the liabilities of Islamic members. It was therefore proposed to commission a report whereby the funds would be screened to determine what proportion of the LGPS could already be deemed Sharia compliant. GGe expressed support for exploring these issues saying that the Board needed to protect itself from the prospect of legal challenge. This approach was agreed, and the Secretariat tasked with exploring procurement routes for such a report.

Action – Secretariat to explore procurement of a report into LGPS assets with a view to determining what proportion were acceptable from a Sharia point of view.

34. JD informed the Board that the ONS review had concluded, and the Further Education sector had been reclassified from private to public sector. The Department for Education had confirmed that there were

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no immediate consequences for their participation as employers in the LGPS, but that the wider implications were under consideration.

35. On collection of the 2021-22 levy, the Board was informed that to date, there were two funds that had not yet paid.
36. The Board was also informed that the response to DLUHC's climate risk reporting consultation had been submitted and published.
37. On the Autumn Statement, JD informed the Board that there were no announcements in the statement that would have direct impact on the LGPS or the SAB, save for the confirmation that state pensions would be uprated by the September measure of CPI (the "triple lock") and that therefore LGPS pensions in payment would also be uprated by the same amount for 2023-24.
38. The Board was notified of a letter that had been sent to the Chair from the Royal Borough of Kensington and Chelsea (RBKC) Pension Fund regarding a proposed change in its approach to the pooling of investments. The Board had been invited to reply to the consultation on changes to RBKC's investment strategy statement by 31 December. The Board discussed the issue at length. The need for greater clarity and transparency in the pooling agenda was emphasised, and the Board Chair said that he would discuss the issue at his meeting with the Local Government Minister later in the week. It was not felt that a response to the RBKC consultation from the Board was necessary.

Date of next meeting – February 20th 2023
