

The Scheme Advisory Board

Summary note of (hybrid) meeting held on 22 May 2023

Full details of the meeting and agenda papers can be found on the [board meetings page](#).

The minutes of the meeting on 22 February were approved.

The main points arising from the meeting are shown below:

Code of Transparency Compliance System - The Board agreed that the Transparency Code itself had been very successful in providing funds with the information that they needed from managers to report and manage investment costs. However, awareness of the compliance system was more mixed and the Secretariat reported that it had set up a series of "roadshows" [in six locations](#) in England and Wales to promote its use over the summer months. The contract for provision of this system expires in August 2024 and the Board asked the Secretariat to bring a paper to the July meeting on procurement options and a timetable for decision making.

Annual Report update - The final scheme level report will be published online at the time of the PLSA conference in week commencing 26 June.

HM Treasury Scheme Valuation / Cost Control Mechanism Draft

Directions - Although there is not a formal public consultation process for HMT Valuation Directions, the Board had been given sight of and been asked to give its views on draft directions ahead of them being finalised. These would be discussed at the CMBDA meeting on 26 June, with GAD providing some further explanation.

Pooling/Levelling Up -DLUHC officials confirmed that they were no longer saying to expect this consultation on investment issues "soon" but "by summer recess", which is 20 July.

Climate Risk reporting - DLUHC have confirmed that [implementation of climate reporting obligations would be delayed at least until next year](#). Presuming regulations are forthcoming in time for 1st April 2024, reports covering the period 1 April 2024 - 31 March 2025 would need to be produced by December 2025. In the meantime, the Responsible Investment Advisory Group (RIAG) would look at what advice could be given to funds wishing to do a shadow reporting year, and also what could be done to standardise the development of climate reporting approaches at the pool level.

Survivor benefits and death grants - The Board heard that the Minister has rejected advice that the scheme rules needed to be amended to address the clear age discrimination of having a cut off at age 75 for payment of death grants. The rationale for his decision had not been shared but it constitutes a clear legal risk for funds. The Chair stated that this was a matter of concern for the Board, and that he would raise this in the meeting he was seeking with the Minister.

Good Governance - The Board noted that the Minister had given DLUHC officials a steer that any changes to the regulations would not be made until the next calendar year. DLUHC were considering what could be achieved through guidance. The Secretariat would review the Good Governance recommendations and see what might be appropriate for pursuing on that basis, whilst acknowledging that this meant that some of the benefit of including some elements in legislation could be lost.

Pension fund audit - The Board noted the very productive and pragmatic audit summit which had been held on 20 April. This brought together representatives of funds, their actuaries and the main auditors involved in auditing LGPS fund and scheme employer accounts. A further summit would be held on 12 July to update on actions that were agreed in April. It was expected that these summits would become annual events, to ensure that any unnecessary friction could be taken out of the process, or at least reduced.

Academy Conversions - It was agreed that the note on actuarial treatments for the establishment of academies on conversion should be published on the Board's website. This had been produced by a working group set up by the Board, which included GAD, DLUHC, fund actuaries, fund practitioners and academy representatives. Publication would follow a short consultation with the actuaries who had not participated in the working group.

Date of Next Meeting – 17 July 2023

Scheme Annual Report 2022 - Chair's Statement

On behalf of the Scheme Advisory Board I am delighted to be able to present the tenth Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales. The LGPS is one of the largest defined benefit (DB) schemes in the world and is the largest DB scheme in England and Wales, with 14,992 active employers, 6.39m members and assets of £369bn.

The aim of this Annual Report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. Continually improving key information about the Scheme as a whole is one of the top priorities of the Board. This report aggregates information supplied in the 86 fund annual reports, as of 31st March 2022.

Here are some key LGPS highlights for 2022:

- Total membership of the LGPS increased slightly, growing by **161,871 (2.6%) to 6.39m members in 2022 from 6.23m in 2021**
- The total assets of the LGPS increased to £369bn (a change of 7.8%). These assets were invested in pooled investment vehicles (**67%**), **public equities (12%) bonds (3%), direct property (3%), as well as other asset classes (15%)**
- The Local Authority return on investment over 2021/22 was 8.1%. This compares to UK CPI year on year inflation of 8.8% (Sept – Sept)
- The scheme maintained a positive cash-flow position overall, including investment income.
- Over **1.95m** pensioners were paid over the year
- Life expectancy rebounded to similar levels pre-covid with an increase by **0.8 years & 0.6 years** for males and females respectively (2021 figures v 2022)
- Total management charges increased by £385m (+22.5%) from £1,711m. This was primarily driven by a £381m (25.6%) rise in investment management charges, while administration and oversight and governance costs remained broadly stable.

In a separate analysis of local fund valuation reports, it was estimated that as at 31st March 2022, the LGPS liabilities were estimated at £339bn indicating an overall funding level of 107%. Since its establishment, the Board has actively developed proposals to tackle the funding deficit (£6bn in 2019, £37bn in 2016) and has been successful in improving the sustainability of the LGPS and its funding level. The next triennial valuation of the LGPS will be as at 31st March 2025.

The work of the Scheme Advisory Board through the period of this report (1 April 2021 - 31 March 2022) continued to be focused on McCloud, as well as working with government on putting the recommendations from the good governance project into action. The Board worked with government to shape their proposals for a climate risk reporting consultation and continued its focus on responsible investment, through its Local Authority Responsible Investment Summit (LARIS) in April 2022, as well as the work of the-then newly established Responsible Investment Advisory Group (RIAG).

The Board continued to support the sector as it recovered from and pivoted to new ways of working as a result of the CoViD-19 crisis. There was a welcome return to “in-person” events, but the use of hybrid facilities continued to ensure maximum attendance at Board and Committee meetings and events.

I would be pleased to hear your views on this our tenth Annual Report (these should be sent to [the Scheme Advisory Board secretariat](#)). The Board is keen to ensure we add to the Report and that the work underlying our compilation and analysis is ultimately recognised throughout the UK.

Cllr Roger Phillips

Chair of the LGPS Advisory Board
26 June 2023

[To navigate the Annual Report, use the menu on the SAB website or the hyperlinks.]