



**THE INSIGHT
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ASSOCIATION**



**THE LOCAL GOVERNMENT PENSION SCHEME:
TODAY'S CHALLENGES, TOMORROW'S OPPORTUNITIES**

JUNE 2022



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ABOUT THE PLSA

The Pensions and Lifetime Savings Association is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

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EXECUTIVE SUMMARY

1. The Local Government Pension Scheme (LGPS) is the largest defined benefit (DB) pension scheme in the UK, and one of the biggest in the world. Recent figures show that it has 6.9 million members, over 17,000 employers, and assets totalling over £332 billion.¹
2. The LGPS is a statutory pension scheme delivering valuable benefits for people who provide public services, including many who perform roles of support and care in local communities, often for relatively low pay. The scheme offers high quality and efficient pension provision for local government employers but also for many other types of employers, which do not have direct ties to local authorities. At the time of publication, there are 86 funds in England and Wales (E&W), 11 funds in Scotland and one in Northern Ireland (NI).
3. The scheme has consistently demonstrated financial resilience and operational stability throughout regular periods of rapid change. It has successfully met numerous challenges over the decades with speed, accuracy and limited resources, and capitalised on its economies of scale and collaborative culture.
4. Latest valuation figures at time of publication show the LGPS to be in a strong financial position: the funding level in England and Wales at the 2019 triennial valuations was at 98%²; it was 102% for Scotland in 2017 (publication of the Scottish LGPS 2020 triennial valuations expected); and 112% for Northern Ireland in 2019.^{3,4}
5. From this position of financial security and operational success, the LGPS membership of the Pensions and Lifetime Savings Association (PLSA) requested an in-depth piece of independent research, to better understand the opportunities available to continue to evolve and future-proof the scheme from any possible headwinds. This research report sets out our findings, areas where existing good practice can be fortified and where action can be taken to address the ever-increasing regulatory and environmental challenges facing the scheme.

1 These figures were correct as of May 2022. Please see:

(a) SAB Scheme Annual Report 2020. Available at: <https://lgpsboard.org/index.php/schemedata/scheme-annual-report>
 (b) SLGPS Annual Report 2019-20. Available at: <http://scotlgpsab.webdigi.co.uk/docs/SABAnnualReport201920Final.pdf>
 (c) NILGOSC Annual Report & Accounts 2020-21. Available at: <https://nilgosc.org.uk/wp-content/uploads/2021/11/NILGOSC-Annual-Report-2020-21.pdf>
 (d) NILGOSC Annual Report & Accounts 2019-20. Available at: https://nilgosc.org.uk/wp-content/uploads/2020/12/new_7786653__annual_report_and_accounts_2019-20_webcompressed.pdf
 (e) Audit Scotland SLGPS 2018-19. Available at: https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191217_local_government_finance_supp2.pdf

2 (a) Figures are from LGPS Annual Report 2020 (based on individual LGPS funds' statutory annual reports and audited financial statements). Available at: <https://www.lgpsboard.org/index.php/schemedata/scheme-annual-report>
 (b) Figures from latest England and Wales triennial valuations, completed in March 2022, are forthcoming but not publicly available as of May 2022.

3 These figures were correct as of May 2022. Please see:

(a) Aon (2019) Report on the 31 March 2019 Actuarial Evaluation. Available at: <https://nilgosc.org.uk/wp-content/uploads/2021/05/2019-Valuation-Report-for-LGPSNI.pdf>
 (b) Clarke & Scanlon (2019) Local Government Pension Scheme Scotland. GAD. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852463/191113Section13ReportMain.pdf
 (c) SAB Scheme Annual Report 2020. Available at: <https://lgpsboard.org/index.php/schemedata/scheme-annual-report>

4 E&W LGPS figure is based on an aggregate of local actuarial valuations, taken from individual funds' statutory annual reports and audited financial statements. Scottish LGPS figure is based on an aggregate of actuarial valuations and other data supplied to the GAD by individual funds.



6. This research project has been carried out independently but informed by dialogue from those who work within the LGPS. This work is intended to provide PLSA members and those with an interest in the LGPS, additional information to aid and inform debate about its operation and purpose. It also aims to suggest practical next steps to some of the challenges highlighted.
7. This research also builds on some of the experiences senior LGPS officers have on a day-to-day basis, including with implementation of regulatory change. Additionally, the observations and recommendations from the England and Wales Scheme Advisory Board's (SAB's) Good Governance Project, as well as from its Tier 3 Employers report⁵, were found in aspects of this research as well, signalling evidence of a need to take action on various fronts.
8. The PLSA's membership was heavily engaged in this project from beginning to end. We conducted four in-depth workshops in July 2021 and had 98 respondents to the survey (issued in October 2021), with over 40 people offering to participate in additional qualitative work. The data collected is discussed under four themes: (1) The LGPS Regulatory and Operating Environment; (2) LGPS Employers; (3) LGPS and Scheme Members; and (4) Operational Sustainability – Systems and People.

5 Aon (2018) Tier 3 Employers in the LGPS. Available at: <https://lgpsboard.org/index.php/tier-3-employers>

THEME 1: THE LGPS REGULATORY AND OPERATING ENVIRONMENT

9. The LGPS operates within a government and regulatory landscape which is complex and the pace of regulatory change it has to react to and comply with has accelerated in the last few years. A wide range of bodies can bring different perspectives, which can of course have a positive impact on outcomes. However, the structure of the governance oversight of the LGPS results in it being hard to achieve a complete overview of its operation.
10. As different parts of the LGPS are required to report to a number of disparate bodies, each with their own distinct objectives, this obscures an overall view of the scheme, its purpose, operational requirements, and resource limitations.
11. Moreover, there is not one entity that has responsibility to consistently and visibly champion the LGPS at higher levels of government discussions and this can lead to the needs of the LGPS being de-prioritised, missed or misunderstood, on both pensions policy issues, as well as on macro policy issues that have knock-on effects for the LGPS – an example of this being education policy and the decision to integrate academies into the LGPS in England.
12. The complex and multiple layers of LGPS’s oversight sometimes also drives conflicting or ambiguous LGPS guidance, as well as an unclear hierarchy of authority between the various external governance bodies; this adds to the regulatory challenges. As a result, LGPS funds are taking increasingly individualised approaches based on local interpretations of guidance. This mode of operation is resource intensive and diminishes opportunities for synergies across funds. There is also a risk that interpretations of guidance or treatment of member benefits may be challenged, with wider consequences for the scheme.
13. The PLSA believes that deliberate and purposeful action should be taken to address the challenges resulting from these complex governance arrangements: (a) there should be a significant push to ensure the existing framework works in a more joined-up and coherent way and (b) there should be an examination of the benefits of a more centralised approach, that could involve new responsibilities for an existing body or creating a new body with greater powers. (Without a single entity, the LGPS’s needs will continue to be deprioritised in macro government discussions – outcomes that have tangible impacts to the day-to-day running of the LGPS, which will be explored in Theme 2: LGPS Employers.)
14. The PLSA also recommends developing a common standard on governance and a “levelling up” of practice, with a focus on the type and quality of outcomes administering authorities should aim to achieve. A blueprint for this form of standard can be found in the Financial Reporting Council (FRC)’s Stewardship Code.⁶ A common standard of this type would be additive and beneficial to the existing sharing of best practice and to the wide-spread collaboration already in place. The England and Wales SAB’s Good Governance Project has also produced recommendations on how to provide this common standard.⁷

⁶ FRC UK Stewardship Code. Available at: <https://www.frc.org.uk/investors/uk-stewardship-code>

⁷ SAB Secretariat (2021) Annex to Letter to Luke Hall MP. Available at: https://www.lgpsboard.org/images/Other/Annex_to_Good_Governance_letter_110221.pdf



TOPIC	OPPORTUNITIES	WHO SHOULD TAKE THIS FORWARD
Theme 1: The LGPS Regulatory & Operating Environment	<p>Recommendation 1: The PLSA recommends deliberate and purposeful action is taken to address the challenges of the complex and disparate nature of the governance and regulatory landscape in the following two ways:</p> <ul style="list-style-type: none"> (a) there should be a significant push to ensure the existing framework works in a more joined-up and coherent way; (b) there should be an examination of the benefits of a more centralised approach that could involve creating a new body or giving an existing body greater powers. <p>It will be important as well that the devolved administrations are a part of the above discussions and actions suggested, so that a consistent approach across the entirety of the UK can be taken where possible and appropriate.</p>	England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; The Pensions Regulator (TPR); FCA; DLUHC; Scottish Government; Northern Ireland’s DfC; Chartered Institute of Public Finance and Accountancy (CIPFA); Funds
	<p>Recommendation 2: It may be beneficial for the Department for Levelling Up, Housing and Communities (DLUHC) to have more active outreach across the LGPS in England and Wales, across all fund sizes, perhaps even through the PLSA, so that more effort is put into ensuring that smaller funds’ views are taken into consideration in policy-making.</p>	DLUHC, PLSA
	<p>Recommendation 3: As there is currently no entity looking at the whole of the LGPS, drafting a strategic “regulatory map” would highlight to external stakeholders the complexities in which the LGPS operates. It would showcase the need for:</p> <ul style="list-style-type: none"> (a) a significant push to ensure the existing framework works in a more joined-up and coherent way; and (b) there should be an examination of the benefits of a more centralised approach that could involve creating a new body or giving an existing body greater powers. <p>This draft map from the PLSA would help Funds to clearly understand what applies to them, and would help ensure that the LGPS voice is represented and weighted accordingly in central government decisions that affect the sustainability of the LGPS and its day-to-day running directly.</p>	PLSA, Funds
	<p>Recommendation 4: It may be necessary to offer standardised and mandatory training courses, which could make use of CIPFA guidance and recommendations from the E&W SAB Good Governance project.⁸</p>	Funds; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR

⁸ SAB Secretariat (2021). Letter to Luke Hall MP. Available here: https://www.lgpsboard.org/images/Other/Annex_to_Good_Governance_letter_110221.pdf

	<p>Recommendation 5: As funds are all at varying stages of development and progress on different operational and governance issues, the PLSA also recommends developing a common standard on governance and a “levelling up” of practice, with a focus on the type and quality of outcomes administering authorities should aim to achieve. A blueprint for this form of standard can be found in the FRC’s Stewardship Code.⁹ A common standard of this type would be additive and beneficial to the existing sharing of best practice and to the wide-spread collaboration already in place. The England and Wales SAB’s Good Governance Project has also produced recommendations on how to provide this common standard.¹⁰</p>	<p>DLUHC; Scottish Government; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR</p>
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THEME 2: LGPS EMPLOYERS

15. Overall, the relationship between funds and employers is a very positive one. However, the consequences of public sector reforms since the 1980s – that encouraged the outsourcing of local authority services – combined with central government policy decisions over which the LGPS has very little influence, leave many LGPS funds to bridge large gaps in employers’ knowledge and understanding about their responsibilities to the scheme and to its savers.
16. Additionally, for some types of employers, the LGPS is increasingly unaffordable, raising questions over which employers should be part of the scheme. However, it is important to note that affordability for employers is less of an issue for the LGPS funds in Scotland or Northern Ireland, where there are a lower number of employer entrants; these funds are also typically better funded than their counterparts in England and Wales. There is also currently comparatively less demand from the charitable sector for admission to the LGPS in Scotland. In contrast, the LGPS funds in England have seen substantial growth in individual employers, as a consequence of the academisation of schools.
17. Issues around employer affordability are driven by both the terms of entry and the terms of exit. Ensuring employers understand their obligations to the Fund at the point of entry is very important. Contractual negotiations sometimes commence without the view of key bodies, including the LGPS fund, being fully considered. As a result, organisations can join unprepared to meet their scheme contribution rate and do not always have full awareness of the commitments and actions required to administer its obligations to members. Early engagement and clear communication of responsibilities to prospective employers before they join, as well as during their time in the scheme, including implications for outsourcing services, are paramount.

⁹ FRC UK Stewardship Code. Available here: <https://www.frc.org.uk/investors/uk-stewardship-code>

¹⁰ SAB Secretariat (2021), Letter to Luke Hall MP. Available here: https://www.lgpsboard.org/images/Other/Annex_to_Good_Governance_letter_110221.pdf



18. Funds have to react to a wide range of Government policy decisions that impact the LGPS. For instance, the creation of academy schools, while relevant only to England as LGPS employers, are an example of this; they have also been the biggest driver behind the tremendous growth in employers in England. Other, largely hidden complexities include the ability of local authority run schools to appoint their own payroll provider, which can reduce the timeliness and quality of data being submitted to LGPS funds.
19. It is important to note that while many LGPS funds are currently well-funded – many indeed in surplus on both their own and Government Actuary’s Department’s (GAD’s) funding measures – this does not guarantee that future employer affordability and sustainability issues will not arise.

TOPIC	OPPORTUNITIES	WHO SHOULD TAKE THIS FORWARD
<p>Theme 2: LGPS Employers</p>	<p>Recommendation 1: Given that the two most common reasons cited for not having the right staff to service relationships with employers is “not having enough staff” and “requirements are too complex”, a two-pronged approach to address this issue may be needed. The PLSA recommends the following:</p> <ul style="list-style-type: none"> (1) Review the PLSA’s Talent Management Guide 2018 and share best practices on talent management resourcing), and; (2) Where possible, review and implement the recommendations under Theme 1: The LGPS Regulatory and Operating Environment, to ensure that there is a single view to help make regulatory requirements less complex and easier to navigate, in a way that addresses the LGPS’s needs. 	<p>England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR; FCA; DLUHC; Scottish Government; Northern Ireland’s DfC; CIPFA; Funds</p>
	<p>Recommendation 2: The PLSA recommends that central government and devolved administrations actively involve local and administering authorities in policy decisions the scheme will be required to execute.</p>	<p>Funds; DLUHC; Scottish Government; Northern Ireland DfC; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards</p>
	<p>Recommendation 3: The PLSA recommends a review of employer engagement best practice is commissioned. This will ensure that employers’ knowledge of their responsibilities (legal, administrative and funding) across the scheme are improved. This will also help improve awareness before employers officially join the scheme and also during their ongoing participation.</p>	<p>England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR; Funds; Employers (including HR departments)</p>

	<p>Recommendation 4: Funds should be proactive in providing information and assistance to existing and prospective employers. This should help to mitigate the potential for participating employers and outsourced providers failing to understand their responsibilities and risks.</p>	<p>England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR; Funds; Employers (including HR departments)</p>
	<p>Recommendation 5: We believe Funds should have something more aligned to TPR’s notifiable events framework or an information sharing protocol to trigger and facilitate appropriate dialogue in a timely manner, when appropriate.</p>	<p>England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR; Funds; Employers (including HR departments)</p>
	<p>Recommendation 6: The PLSA recommends commissioning additional work to explore and share best practice in both assessing employer risk early on and helping to manage both the risk and exit where appropriate (including through exit valuations), building on what is already available. Emphasis on consistency to approach and options whenever possible across the UK may be helpful to both funds and employers. It was reported to the PLSA that there is already much good practice and information, but which best practice guides to use is not always very clear. Any work in this area would need to ensure not to duplicate work that has already happened in this space, such as that done by E&W’s SAB.</p> <p>While employer affordability and exit challenges are not generally an issue in Scotland, it will be important to ensure that the Advisory Boards for Scotland and Northern Ireland are involved, to ensure best practice across the LGPS is captured.</p>	<p>England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; PLSA</p>
	<p>Recommendation 7: The PLSA also recommends that the benefits of staying within the LGPS be actively and regularly explained to employers as well.</p>	<p>Funds, Employers (including HR departments)</p>
	<p>Recommendation 8: As there continues to be a debate about the type of employers which should participate over the long-term in the LGPS, the PLSA recommends that further work is commissioned to answer this question. We note ongoing work by DLUHC to consider changes for HE/FE sector.</p>	<p>Funds, England & Wales, Scottish and Northern Ireland Scheme Advisory Boards</p>



THEME 3: LGPS AND SCHEME MEMBERS

20. The approach to engagement with scheme members across Funds appears to be variable and inconsistent, however, our workshops and interviews captured a wider movement within the LGPS towards wanting to “prioritise savers”, including to protect savers from scams, the importance of reminding employers of their responsibilities to scheme members, and to provide greater support in communication of benefits and types of communication offered.
21. A significant proportion of the LGPS membership are lower paid workers who contribute to the provision of essential local community support and national public services. The scheme acts as a vital financial safety net for these workers – an objective which is sometimes lost in political and policy debates, with an assumption that all public sector workers, across all public sector pension schemes, will have adequate retirement income. However, data on membership profile is not yet collected in a systematic and consistent way to help maintain and grow an understanding of how best to support LGPS savers.

TOPIC	OPPORTUNITIES	WHO SHOULD TAKE THIS FORWARD
Theme 3: LGPS and Scheme Members	Recommendation 1: The PLSA recommends the LGPS engages further with the use of its Retirement Living Standards in its communications with its members, to help savers better understand what they should try to do now to have an adequate income in retirement.	Funds
	Recommendation 2: The PLSA recommends commissioning an independent piece of work to obtain a robust and granular understanding of the LGPS membership profiles, as a first step towards having a greater understanding of their needs, and for LGPS savers’ voices to be represented at a more macro level on regulatory, policy and political discussions relating to pensions. This may help to reveal what further official data may need to be collected from central and local government entities in England, Wales, Scotland and Northern Ireland.	PLSA; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; Funds
	Recommendation 3: The PLSA will seek to understand what communication tools Money and Pensions Service (MaPS) already employs with savers that could possibly be deployed for the needs of the LGPS. The PLSA should explore what role employee groups, such as trade unions, could play in helping savers understand pensions.	PLSA, MaPS, Funds

THEME 4: OPERATIONAL SUSTAINABILITY – SYSTEMS AND PEOPLE

- 22. The LGPS is not consistently well understood by those within administering authorities who do not work directly in the delivery of the LGPS. This can obstruct appropriate resource allocation and operational investment needed to fund strategic developments and operational requirements of the LGPS.
- 23. Investing in operational resilience – assessing resilience, risk/impact and drivers/mitigants – is key to enhanced long-term understanding of sustainability and is something the LGPS should as a whole commit to doing.
- 24. LGPS funds’ staff retention issues remain prevalent. Competition for talent remains fierce over pay – a situation made worse by effects of the pandemic on the job market. Given hybrid working is now the normal standard for most office jobs, many working in the LGPS outside of regional hubs or city centre locations can now also compete for roles that pay more than many administering authorities can typically offer.
- 25. Problems with retention and recruitment are exacerbated by increasing regulatory complexity. Project participants reported staff exiting in part because they did not want to be present for the McCloud Judgment implementation, leading to a wider insight into the lack of confidence by LGPS employees in the stabilisation of regulatory change, which is contributing to a retention and recruitment barrier, and thereby operational sustainability as well.
- 26. A nation-wide LGPS “rebrand”/campaign may be necessary to better articulate the benefits for existing and future LGPS employees. The LGPS may want to consider reforms which provide a standard framework which highlights the skills and knowledge requirements, the career progression available, and the positive, collegiate working environment captured by the research, all which could then be adapted at a more local level. This should in turn encourage more applicants to the LGPS at all levels, and to fill knowledge gaps within administering authorities on the important service LGPS pensions teams provide, which require skills that are often paid at higher wages in the private sector.

TOPIC	OPPORTUNITIES	WHO SHOULD TAKE THIS FORWARD
Theme 4: Operational Sustainability - Systems and People	<p>Recommendation 1: The LGPS could ask IT suppliers for pensions administration to provide additional options and solutions to help funds to fulfil their wish to do more for, and to work more closely with, employers and scheme members. The push towards competition should encourage innovation.</p> <p>It will be important as well to continuously monitor whether existing systems can cope with the ever-changing and increasingly complex regulatory requirements of the LGPS.</p>	Funds
	<p>Recommendation 2: Given so many funds have reported increasing efforts to improve recruitment and retention in the last five years, the PLSA recommends a “best practice” case studies project be undertaken to share what has worked and what might not have worked as well.</p>	Funds, PLSA



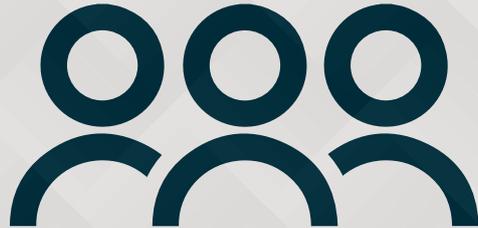
	<p>Recommendation 3: Some funds are having difficulty recruiting people with the “new skills” that are now required (i.e., digital skills, regulatory expertise, cyber security).</p> <p>The PLSA recommends that the LGPS explores establishing a central support network that could help with recruitment across the country.</p>	<p>Funds</p>
	<p>Recommendation 4: We recommend that the PLSA takes this finding – that staff are resigning due to concerns over regulatory complexities – to DLUHC, Scottish Government, Northern Ireland’s Department for Communities, TPR, and FCA to use in wider discussions about regulatory complexity and the negative impacts it has on funds, to ask them to consider more joined-up policy and regulatory work, and to streamline compliance issues where possible. It may be necessary to acquire new statistics on this to help make the case to decision-makers.</p>	<p>PLSA; Funds; DLUHC; Scottish Government; Northern Ireland DfC; TPR; FCA</p>
	<p>Recommendation 5: The PLSA recommends that some of the suggestions from its talent management guide be revisited, including, but not limited to the following:</p> <ul style="list-style-type: none"> • There may be a need to create comparable national roles and pay bands across the LGPS funds, so that funds are able to recruit more efficiently and appropriately for the skills gaps on their teams. • Reframing the language used to describe a career in pensions may help to attract a broader group of candidates. For instance, describing a job within an organisation that manages a multibillion-pound fund might be more appealing to a larger range of individuals for certain posts. Additionally, the scale of LGPS membership in terms of the variety of employers and the type of work they do across a range of sectors should be explicitly championed in all job descriptions, to showcase the tapestry of roles and skills that make up the LGPS. • There is limited comparability in roles between LGPS funds and the wider administering authority. As such, HR is often not fully aware of the specialised skills required to perform well within pension administration, finance, and investment roles. It may be worth exploring whether common job roles or common job descriptions across the LGPS funds might assist in pay challenges as they relate to recruitment and retention. <p>As many LGPS funds currently have difficulty competing on pay, it is crucial to emphasise the quality of pension provision and positive working environment they can offer. It is important to explain to potential applicants the flexibility, collegiate atmosphere and industry career pathways that are available to those who join LGPS funds.</p>	<p>England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; LGA; WLGA; COSLA; Funds; Administering Authorities</p>

	<p>Recommendation 6: The LGPS could have a collective, UK-wide outreach campaign to help bridge knowledge gaps within administering authorities, to provide a greater understanding of the specialised pensions skills needed within funds. A comparison to equivalent roles in the private sector may be helpful. Please see Recommendation 5 in Theme 4: Operational Sustainability.</p>	<p>England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; LGA; WLGA; COSLA; Funds; Administering Authorities; HR departments</p>
	<p>Recommendation 7: Investing in operational resilience – assessing resilience, risk/impact and drivers/mitigants – is key to enhanced long-term understanding of sustainability of the LGPS. The PLSA recommends that funds take this forward to establish and encourage best practice. Establishing a team that specifically looks at operational resilience, that would factor in incoming regulatory requirements such as implementing McCloud, or for projects such as Dashboards, could be one way to do this.</p>	<p>Funds; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards</p>
	<p>Recommendation 8: As some funds have difficulties consistently securing necessary resources, a clearer articulation from Government of the requirements and a longer run-up to milestones would aid funds in their planning and development of business cases to secure the necessary resources at local level.</p>	<p>DLUHC; Scottish Government; NI DfC; DWP; HMT; HMRC; FCA; TPR</p>

CONCLUSIONS AND NEXT STEPS

- 28. The LGPS is the largest defined benefit (DB) pension scheme in the UK, and one of the biggest in the world. The long-term sustainability of the LGPS looks secure and opportunities to continue to grow and evolve the scheme to enhance its value to scheme members are plentiful. Sustaining its position of financial strength will be important, as is a willingness of various entities to work together to ensure that the LGPS’s needs are considered in all relevant regulatory developments, which was explored under **Theme 1: The LGPS Regulatory and Operating Environment**.
- 29. **Theme 4: Operational Sustainability** is also key to the overall long-term sustainability of the LGPS. The administrative burden is however rising due to increasing levels of regulation, and as such, talent management remains a top priority, to ensure that the LGPS continues to have enough of the right skills and personnel to navigate through its complicated regulatory environment.
- 30. Promoting the value and purpose of the LGPS can play an important role in recruiting and retaining talent. As explored in **Theme 3: Scheme Members**, the LGPS provides benefits to people across the UK who provide essential services to local communities. This articulation of “purpose” could also help strengthen relationships with employers, as explored in **Theme 2: LGPS Employers**.
- 31. The PLSA will work with its members and other bodies involved in supporting the delivery of the LGPS, to build on this programme of work to continue to help future-proofing the LGPS.

SCHEME FACTS



c6.9 million members, of which
c2.3 million are active



98 funds, of which 86 in England and Wales,
11 in Scotland and 1 In Northern Ireland



c£332 billion in assets under management
(in England, Scotland, Wales and Northern Ireland)

*Figures accurate as of May 2022

KEY SURVEY FINDINGS

THEME 1: THE LGPS REGULATORY AND OPERATING ENVIRONMENT

43%

said the main aspect that they enjoyed about working within the LGPS was their colleagues.

77%

felt their pensions committee is focused on the right strategic priorities and issues.

97%

said they work with or work collaboratively with other LGPS funds.

86%

said they work with other funds to share knowledge.

88%

have more than one authority who has influence over areas of their work.

67%

believe that the main legislation or regulatory requirements that govern their work are overlapping between different organisations/regulators.

65%

believe that the main legislation or regulatory requirements that govern their work causes them confusion.

THEME 2: LGPS EMPLOYERS

90%

say their fund has a good relationship with their employers.

59%

have had employers express a desire to leave the LGPS.

THEME 3: LGPS AND SCHEME MEMBERS

95%

felt their organisation understands the characteristics of their beneficiaries/pension members.

84%

felt they have a good or very good relationship with their beneficiaries/pension members.

79%

believe there is greater scope for LGPS funds to engage directly with their pension members.

THEME 4: OPERATIONAL SUSTAINABILITY – SYSTEMS AND PEOPLE

95%

said their organisation has made efforts to improve their systems and processes within the last five years.

78%

felt their organisation has the right systems and processes in place to do their day-to-day job.

88%

said they have made efforts to improve recruitment and retention within the last five years.

22%

feel their ability to secure resources has got worse.

34%

believe that changing LGPS job descriptions and titles would improve recruitment.



I. INTRODUCTION

The Local Government Pension Scheme (LGPS) is the largest defined benefit (DB) pension scheme in the UK, and one of the biggest in the world. Recent figures show that it has 6.9 million members, over 17,000 employers, and assets totalling over £332 billion.¹¹ At the time of publication, there are 86 funds in England and Wales (E&W), 11 funds in Scotland and one in Northern Ireland (NI).

The LGPS timeline over the last decade reveals the rapid change the scheme has undergone since 2010 (see Figure 1). The Great Recession set off a series of austerity measures, including pay freezes on local authorities, which had direct impact for recruitment and retention. With that backdrop of limited resources, a rolling series of reforms began: The LGPS became a Career Average Revalued Earnings (CARE) scheme for future accrual; the number of employers joining the LGPS increased in record numbers, with publicly available figures showing that it increased at least 75% between 2013 to 2020;¹² the transitioning of LGPS funds' assets in England and Wales into its eight distinct investment pools began, while Scotland also initiated a review of its own LGPS structure. Most recently, responsible investment, the impending implementation of the McCloud Judgment, and of course the global pandemic impacts, are all big and important areas incorporated into the LGPS agenda. These regulatory reforms are happening against a wider frenetic pace of cultural shifts, given increasing digitalisation, substantial demographic changes, and unprecedented, widespread adjustments to the way many office workers now execute their duties.

Despite the many challenges of the past decade or so, the scheme demonstrated both financial resilience and operational stability throughout this period of rapid change. Latest valuation figures at time of publication shows the LGPS to be in a strong financial position: the funding level in England and Wales at the 2019 triennial valuation was at 98%¹³; it was 102% for Scotland in 2017 – with the publication of the Scottish LGPS 2020 triennial valuations expected); and 112% for Northern Ireland in 2019.¹⁴⁻¹⁵

11 These figures were correct as of May 2022. Please see:

(a) SAB Scheme Annual Report 2020. Available at: <https://lgpsboard.org/index.php/schemedata/scheme-annual-report>
(b) SLGPS Annual Report 2019-20. Available at: <http://scotlgpsab.webdigi.co.uk/docs/SABAnnualReport201920Final.pdf>
(c) NILGOSC Annual Report & Accounts 2020-21. Available at: <https://nilgosc.org.uk/wp-content/uploads/2021/11/NILGOSC-Annual-Report-2020-21.pdf>
(d) NILGOSC Annual Report & Accounts 2019-20. Available at: https://nilgosc.org.uk/wp-content/uploads/2020/12/new_7786653__annual_report_and_accounts_2019-20_webcompressed.pdf
(e) Audit Scotland SLGPS 2018-19. Available at: https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191217_local_government_finance_supp2.pdf

12 This figure for employer growth is for England and Wales only. Historical figures on employer growth are not publicly available for Scotland and Northern Ireland at the time of publication. Please see: <https://lgpsboard.org/index.php/schemedata/scheme-annual-report>

13 (a) Figures are from LGPS Annual Report 2020 (based on individual LGPS funds' statutory annual reports and audited financial statements). Available at: <https://www.lgpsboard.org/index.php/schemedata/scheme-annual-report>
(b) Figures from latest England and Wales triennial valuations, completed in March 2022, are forthcoming but not publicly available as of May 2022.

14 These figures were correct as of May 2022. Please see:

(a) Aon (2019) Report on the 31 March 2019 Actuarial Evaluation. Available here: <https://nilgosc.org.uk/wp-content/uploads/2021/05/2019-Valuation-Report-for-LGPSNI.pdf>
(b) Clarke & Scanlon (2019) Local Government Pension Scheme Scotland. GAD. Available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852463/191113Section13ReportMain.pdf

15 E&W LGPS figure is based on an aggregate of local actuarial valuations, taken from individual funds' statutory annual reports and audited financial statements. Scottish LGPS figure is also an aggregate based on actuarial valuations and other data supplied to GAD by individual funds.

Looking to the future it is clear that the trend of intense regulatory development is likely to continue. The ongoing spotlight on Environmental, Social and Governance (ESG) factors in investments, the rising cost of living alongside a growing debate around issues of intergenerational fairness, the wider importance of diversity – including that of knowledge and skills – within the pensions industry, the Government’s new “Levelling Up” agenda in England and Wales, the challenges of implementing pensions dashboards and the McCloud Judgment, and the continued search to establish the right levels of regulatory guidance and oversight, are all likely to increase pressure on the LGPS’s administration and operations, as well as LGPS savers, for years to come.

RESEARCH PROJECT AIM AND OBJECTIVES

A conclusion from the rapid-fire challenges in the last decade might well be that uncertainty is a necessary part of “business as usual” thinking. However, recognising the need for continued preparedness, this report seeks to understand the specific challenges and questions – some new, some ongoing – that the LGPS now faces. As a first step into a series of research work, this project aims to provide insights, increase dialogue about the LGPS, as well as visibility into the issues LGPS funds are currently facing, to try and “future-proof” the scheme by mitigating any risks that may come down the track. As such, this work intends to provide an ongoing opportunity to collectively develop insights into the key strengths and long-term purpose of the LGPS, as well as into how both can continue to be safeguarded.

In our analysis, we seek first to understand the regulatory and operational landscape, before drilling deeper into possible next steps of the research work, which may be able to offer up solutions to shared concerns.

Objectives

This report draws on both qualitative and quantitative evidence provided by our LGPS members, to do the following:

- Develop a comprehensive understanding of the major issues and challenges facing the operation of the scheme;
- Establish a baseline of data and information from which to measure against in future years;
- Identify where possible, best practices or gaps in knowledge or understanding of regulation, policy, operations, or any other collective issue raised; and
- Identify where additional clarity is needed on guidance from the regulators and the Government.

Areas we explored included: regulatory and operational complexity; LGPS employers; LGPS savers; prevention of scams; and talent management. There are also a number of factors driving governance and decision-making, including key policy ambitions such as net zero targets. However, throughout our discussions with members, we had an open mind as to where the conversation might take us, and allowed the research work to evolve naturally.

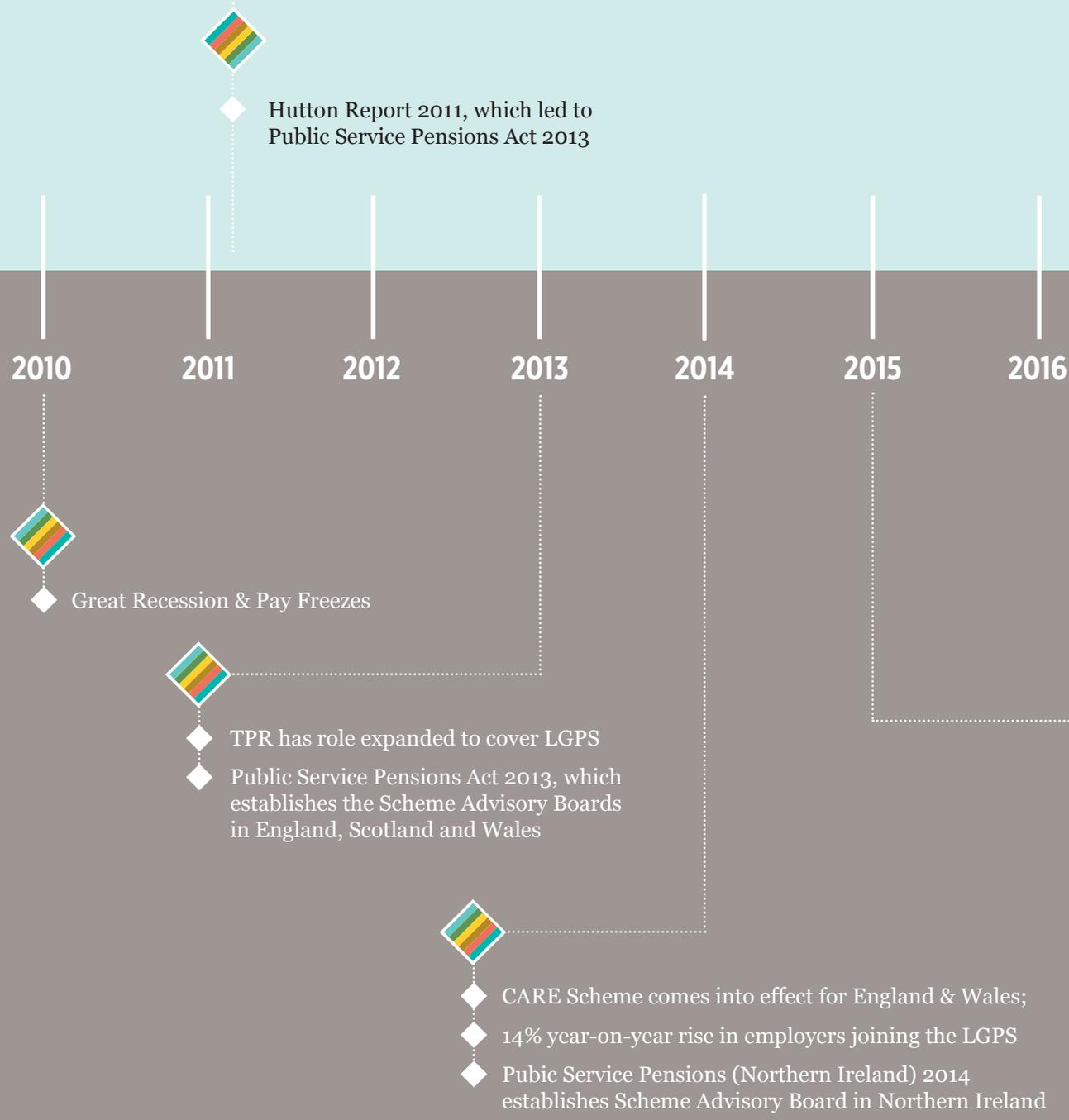


Below we have set out how we went about this, what we heard, and how we believe the LGPS, policy makers, and the PLSA, may need to respond. The PLSA believes that this report forms the blueprint for future-proofing the LGPS, and will help to ensure that the scheme can leverage its economies of scale to continue to deliver opportunities, increasing efficiencies and even greater value for its members in the coming decade and beyond.

We conducted four in-depth workshops in July 2021, had 98 respondents to the survey (issued in October 2021), with over 40 people offering to participate in qualitative work. The workshops and the survey have informed our work to date, and we hope to build on this with further dialogue with those who have expressed interest in the project going forward.



FIGURE 1: REGULATORY AND OPERATIONAL COMPLEXITY – RECENT KEY MILESTONES FOR THE LGPS





- ◆ Eight pools submit detailed proposals to government
- ◆ Annual Allowance cap lowered
- ◆ Number of employers joining LGPS increases 50% from March 2013 to March 2017, driven largely by outsourcing in education sector



Deadline for LGPS funds to begin to transition assets into pools

2017

2018

2019

2020

2021

2022



2018 TO PRESENT

- ◆ Fair Deal revisited
- ◆ Revised Asset Pooling Guidance Drafted for E&W
- ◆ Scottish structural review of the LGPS
- ◆ Dashboards Project
- ◆ E&W SAB Good Governance Project
- ◆ Cost Transparency
- ◆ £95K cap on exit payments
- ◆ McCloud Judgment
- ◆ Employer flexibilities introduced
- ◆ Responsible Investment/ESG



- ◆ CARE Scheme comes into effect for Scotland and Northern Ireland;
- ◆ Local Pension Boards established;
- ◆ Government publishes investment reform criteria and guidance for pooling

II. THEME 1: THE LGPS REGULATORY AND OPERATING ENVIRONMENT



OVERALL SUCCESSES OF THE LGPS REGULATORY AND OPERATING ENVIRONMENT

43% said the main aspect that they enjoyed about working within the LGPS was their colleagues.

77% felt their pensions committee is focused on the right strategic priorities and issues.

97% said they work with or work collaboratively with other LGPS funds.

86% said they work with other funds to share knowledge.

LGPS continues to be a collaborative success

The National LGPS Procurement Frameworks, set up on a not-for-profit basis 'by the LGPS, for the LGPS', has reached its 10th anniversary in 2022. Since 2012, 99% of LGPS Funds and all the LGPS Pools have used the Frameworks. As a result, the LGPS has benefited by an estimated **£150m savings** and the equivalent of almost **200 years of effort**.

They are a direct example of Funds and Pools with shared interests and vision collaborating effectively to transform the marketplace and deliver benefits both locally and nationally across the entire LGPS.

KEY INSIGHT 1: THE LGPS REGULATORY & OPERATING ENVIRONMENT

A wide range of bodies can bring different perspectives, which can of course have a positive impact on outcomes. However, the structure of the governance oversight of the LGPS results in the lack of a single view of its operation.

With a multiplicity of entities involved, different parts of the LGPS are required to report to disparate bodies with their own distinct objectives. This obscures the overall view of the scheme, its purpose, operational requirements, and resource limitations.

In the absence of a single entity to champion the LGPS's needs at higher levels of government discussions, this can lead to the needs of the LGPS being de-prioritised, unseen or misunderstood.

To create a more centralised view of the LGPS, the following two steps should be taken:

- (a) there should be a significant push to ensure the existing framework works in a more joined-up and coherent way; and
- (b) there should be an examination of the benefits of a more centralised approach that could involve creating a new body or giving an existing body greater powers.

Conflicting or ambiguous LGPS guidance, as well as unclear hierarchy of authority of external governing bodies, both add to regulatory challenges that are difficult to navigate.

The regulatory landscape for the LGPS – and for the overall pensions sector at large – is incredibly complex. The increasing trend to strengthen regulatory oversight and governance may be driven by multiple factors, which may include high profile scandals in recent decades, such as Robert Maxwell’s theft of occupational pension fund money in the 1980s, and the Equitable Life scandal where the oldest UK mutual life insurance company found it could no longer afford to pay guarantees on its pensions annuities. In more recent memory, the 2016 collapse of BHS and the subsequent impact on its pension scheme; the unsuitable financial advice given to members of British Steel scheme in 2017; the suspension of the Woodford Equity Income Fund in 2019 and the impact on pension investments, will all likely have enhanced a sense of public unease and mistrust around the pensions industry, perhaps fuelling a sense of need for greater oversight and governance.

New or reshaped bodies and organisations for private and public sector schemes have been given distinct roles overseeing different parts of the pensions value chain, including for the LGPS, all managing a multiplicity of responsibilities, resulting in a tangible rise in regulatory and Government policy intervention in recent years. Examples include the following:

- Creation of the Scheme Advisory Boards (SABs), a statutory role, in England, Wales and Scotland by the Public Service Pensions Act 2013.¹⁶
- Creation of the Scheme Advisory Board for Northern Ireland in 2014.¹⁷
- Chartered Institute of Public Finance and Accountancy (CIPFA), Code of Practice on LGPS Knowledge and Skills, launched in 2011 (updated in 2021).¹⁸
- The Pensions Regulator (TPR) (which was established by The Pensions Act 1995 and had its role expanded by the Public Service Pensions Act in 2013 to cover the LGPS);
- The Financial Conduct Authority (FCA) (which emerged from the FSA in 2013) and has oversight over much of the LGPS pooled investments;
- LGPS Pensions Boards (created in 2015); and
- The Money and Pensions Service (formed in 2019 from three separate entities: Pension Wise, Money Advice Service and The Pensions Advisory Service).

This all set the stage for a highly complex regulatory environment in which the LGPS now finds itself navigating through – with great success, but also with much resource devoted to keeping up with the ever-changing regulatory landscape.¹⁹

¹⁶ GAD (2013) Technical Bulletin – Public Sector Pensions Act. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/259049/Technical_Bulletin_Public_Service_Pensions_Act_2013.pdf

¹⁷ <https://www.communities-ni.gov.uk/articles/local-government-pension-scheme-northern-ireland>

¹⁸ <https://www.cipfa.org/services>

¹⁹ Please see Annex 2, Timeline of key LGPS regulatory and policy developments



UNDERLYING CHALLENGE 1

– THERE IS NO SINGLE ENTITY LOOKING AT THE LGPS AS A WHOLE, WHICH CAN CAUSE THE NEEDS OF THE LGPS TO BE DE-PRIORITISED IN CROSS-GOVERNMENT DEPARTMENTAL DISCUSSIONS AND CAN CAUSE CONFLICTING OR AMBIGUOUS LGPS GUIDANCE

There is currently no single entity looking at the LGPS as a whole. This causes governance overlaps and unclear communications on responsibilities that fall to administering authorities to execute. The multiplicity of entities involved in LGPS regulatory decisions makes navigating the regulatory landscape difficult for those working within the scheme.

For instance, some regulatory requirements come straight from DWP (for England and Wales) – like the Pensions Dashboards – while others do not, such as climate reporting or the levelling up agenda, which will come from the Department for Levelling Up, Housing and Communities (DLUHC) in England and Wales, the Scottish Government in Scotland, and the Department for Communities (DfC) in Northern Ireland. Investment and funding for the LGPS is within the remit of DLUHC as well, but not when it comes to LGPS pooled investments, which are largely regulated by the FCA. As such, it is not always clear which regulations apply to the LGPS when they are announced, as seen most recently with TPR’s initial draft single code of practice in 2021. On a more micro level, Pensions Boards also have a role to play in the LGPS governance framework, but are not decision-making bodies. As such the application of their role differs across the scheme.

With benefits rights regulations, the Government has been found in court to be in breach of its own discrimination legislation, such as with Guaranteed Minimum Pension (GMP) Equalisation and the McCloud Judgment, with retrospective fixes adding additional complexity to the regulatory and operational environment, and burden on the LGPS, which has limited resources, to retrospectively correct these mistakes within the schemes for its members.

A single entity to oversee all parts of the whole could help bring consistency to the consideration of LGPS needs in regulatory developments, to help ensure that the scheme’s needs are both visible and are high up on the consideration of government priorities. This is most recently evidenced in the policy areas of the McCloud Judgment, Fair Deal and Survivors Benefits – all with very specific requirements for the LGPS, where the regulatory details essential for implementation were not prioritised, in favour of other regulation that, while important, is less crucial to the operational needs of the LGPS. There are thus gaps in understanding as to how to implement essential work tied to these areas, which may cause significant delays for funds within the scheme to establish administration policy and practice to service members and employers.

To create a more centralised view of the LGPS, the following two steps should be taken:

(a) there should be a significant push to ensure the existing framework works in a more joined-up and coherent way and (b) there should be an examination of the benefits of a more centralised approach that could involve creating a new body or giving an existing body greater power. In Theme II’s discussion over employers, the discussion continues on how the lack of a single entity overseeing all parts of the whole can further cause significant challenges to the day-to-day running of the LGPS, as well as impact the long-term sustainability of the scheme.

“”

[THE TERM] ‘LOCAL GOVERNMENT’ IS EVEN GONE FROM THE TITLE NOW; LOCAL GOVERNMENT PENSIONS FALLS RIGHT TO THE BOTTOM OF THE PILE AND IT ALWAYS WILL DO. FROM WHAT I CAN GATHER, THOSE WHO ARE RESPONSIBLE FOR PUBLIC SECTOR SCHEMES WORK WELL TOGETHER ACROSS THE DIFFERENT DEPARTMENTS. BUT THE LGPS WILL ALWAYS BE THE POOR RELATIVE AND A GOOD EXAMPLE OF THIS WOULD BE THE MCCLOUD BILL GOING THROUGH AT THE MINUTE.

“”

I THINK OF IT AS A SORT OF DE-PRIORITISATION [OF LGPS NEEDS] BECAUSE THE LGPS IS NOT BEING SEEN AS A WHOLE.

“”

LGA AND SAB [FOR ENGLAND AND WALES] TAKE ON THAT ROLE [OF OVERSEEING PARTS OF THE WHOLE], BUT IT’S VERY UNOFFICIAL AND IT’S VERY LOOSE AND THEY HAVEN’T GOT ANY POWERS AND THEY HAVEN’T GOT MUCH RESOURCE.

“”

[THE LGPS] DOESN’T GET PRIORITY WITHIN OUR LEADING DEPARTMENT, WHICH ALSO DOESN’T SEEM TO HAVE ANY PRIORITY ACROSS THE GOVERNMENT DEPARTMENTS [WHERE] THE ISSUES ARE MUCH BIGGER THAN PENSIONS.



CONCLUSION OR RECOMMENDATION: THE LGPS REGULATORY & OPERATING ENVIRONMENT

CONCLUSION

A single view of all parts of the whole could help bring cohesion to the regulatory experience of the LGPS and help to ensure that the LGPS's needs are considered holistically. It could also help ensure that LGPS needs are being given the priority it needs. It could also help to bring clarity over which regulations apply to the LGPS when they are announced, help to ensure that LGPS's needs are considered at cross-departmental discussion on more macro pensions issues or other policy issues where impact on pensions is an issue.

RECOMMENDATION 1 (LGPS REGULATORY & OPERATING ENVIRONMENT):

The PLSA recommends that there is deliberate and purposeful action taken for the disparate government and regulatory bodies in these two ways:

- (a) there should be a significant push to ensure the existing framework works in a more joined-up and coherent way;
- (b) there should be an examination of the benefits of a more centralised approach that could involve creating a new body or giving an existing body greater powers.

WHO SHOULD TAKE THIS FORWARD:

England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR; FCA; DLUHC; Scottish Government; Northern Ireland's DfC; CIPFA; Funds

It will be important as well that the devolved administrations are a part of the above discussions and actions suggested, so that a consistent approach across the entirety of the UK can be taken where possible and appropriate.

Impact of governance complexity on funds

At a fund level there are multiple interpretations of reporting and governance hierarchies risking a divergence of approach between and within funds. As the bodies which oversee different aspects of LGPS do not have to communicate with each other, there is little alignment of reporting requirements or mechanisms.



...THE REGULATION ENVIRONMENT HAS GOT MORE AND MORE COMPLEX CONSISTENTLY YEAR ON YEAR, BUT THE PACE OF CHANGE HAS PROBABLY ACCELERATED IN THE LAST FEW YEARS.

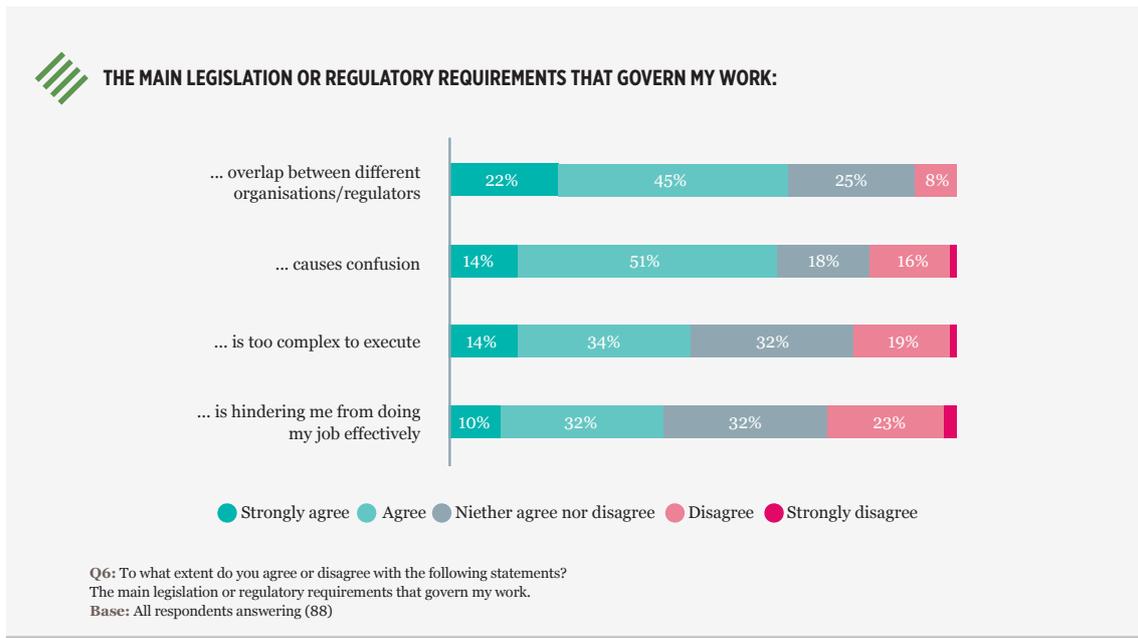




ALL OF THESE DIFFERENT THINGS WE ARE EXPECTED TO DO, WITH NO CLARITY ON HOW ON EARTH WE'RE SUPPOSED TO DO IT, HOW WE'RE SUPPOSED TO RESOURCE OURSELVES FOR IT.

Responses in our survey supported this view. As seen from **Chart 1** below, most respondents to the survey felt that the main legislation or regulatory requirements that govern their work are overlapping between different organisations/regulators (67%), with a similar proportion finding it causes them confusion (65%). Almost half also felt that the legislation/regulatory requirements are too complex to execute (48%), while two in five felt they are hindering them from doing their job effectively (42%).

Chart 1: The LGPS Regulatory & Operating Environment



IT'S ALMOST A WILD WEST OF REGULATION GOING ON THERE AT THE MOMENT. AND EVERYBODY THINKS THEIR BIT IS IMPORTANT AND THEY THINK THE MORE REGULATION THAT'S PILED ON, THE BETTER THINGS ARE GOING TO BE.



“”

IT'S INCREDIBLY COMPLEX FOR ANYONE COMING IN TO GET YOUR HEAD ROUND. WHO DOES WHAT AND WHO'S RESPONSIBLE FOR WHAT.

“”

IN PARTICULAR IT WOULD BE GOOD TO HAVE CONSISTENCY BETWEEN TPR AND DLUHC AND THE SAB'S GOOD GOVERNANCE RECOMMENDATIONS.

Larger funds appeared to suffer greater impacts – possibly due to the greater complexity of their organisational make up. The larger funds (i.e. those with more than £5.5 billion assets) surveyed were more likely to find that the legislation/regulatory requirements are confusing (74%) and overlapping (74%) than do smaller funds (47% and 60% respectively).

Respondents who are LGPS employees who interpret and implement regulation and policy on a regular basis, such as those who work within or alongside the LGPS, including providers, investment managers and advisers, were more likely to feel that the legislation/regulatory requirements are complex and overlapping (53% and 76% respectively) than those in other job functions such as committee members, Board members, pensions administrators (37% and 53% respectively).

“”

BUT ALL OF THIS STUFF IS CONSUMING AN ENORMOUS AMOUNT OF ENERGY. AND BANDWIDTH FROM [SCHEME] MANAGERS FROM THINKING CAPACITY WITHIN PENSION FUNDS. I'M NOT SURE IT'S PREVENTING ME DOING MY JOB PROPERLY, BUT IT'S CERTAINLY GETTING IN THE WAY AND IT'S NOT HELPFUL.

“”

ISSUES SUCH AS MCCLOUD INDICATE A LACK OF CLARITY OF THINKING BEFORE SIGNIFICANT CHANGES WERE MADE.

In the absence of a single or central framework, individual funds have taken responsibility for their own regulatory and guidance interpretation. One fund reported to the PLSA that it had engaged in legal advice to fully understand the hierarchy of guidance and regulation that they must follow.



SOME OF THE GUIDANCE NOTES ARE REALLY WELL WRITTEN.
SOME THEM ARE REALLY DIFFICULT TO UNDERSTAND.



PENSIONS COMMITTEES AND LOCAL PENSIONS BOARDS, WHO JUST SEE THE OUTCOMES, THEY'LL SEE ONE FUND DOING ONE THING AND THEN GO, 'WELL WHY IS THAT FUND ACTING IN THAT WAY'? IT'S DUE TO DIFFERENT INTERPRETATIONS OF BOTH THE LEGAL BACKDROP AND THE GUIDANCE THAT'S OUT THERE.

CONCLUSION OR RECOMMENDATION: THE LGPS REGULATORY & OPERATING ENVIRONMENT

CONCLUSION

Overall, this issue indicates the need for clarity for LGPS funds. In the absence of a single or central framework, individual funds have taken responsibility for the interpretation of various requirements (see **Risk Identified: 1**). Disparities in approach and levels of confusion indicate that this situation is not ideal, and ownership of interpretation and communication of LGPS compliance and reporting requirements should be taken at a more central level.

UNDERLYING CHALLENGE 2

- OVERSIGHT OF THE LGPS: UNCLEAR HIERARCHY OF AUTHORITY

Different Government departments and regulatory bodies have taken separate views of the LGPS based on their own briefs and frameworks. Different parts of the LGPS are also governed by different bodies, which are not joined up enough. As such, it has proved difficult for external stakeholders to understand holistically the pressures facing the LGPS, and decisions continue to be made without understanding fully the history of the LGPS, its purpose, operational requirements, and resource limitations.



WELL, A LOT OF THESE ORGANISATIONS TALK ABOUT THE SAME THINGS. DIFFERENT RULES, BUT SORT OF COMPLEMENT EACH OTHER IN A LOT OF WAYS. BUT IT WOULD BE HELPFUL IF YOU JUST HAD ONE VERSION OF THE TRUTH....



THE LGPS IS THE ONLY FUNDED OPEN DB PUBLIC SECTOR SCHEME – IT IS VERY DIFFERENT TO OTHER SCHEMES. OUR REGULATIONS AND GOVERNANCE ARE SECOND TO NONE.



FUNDED LGPS IS OFTEN MISUNDERSTOOD AND WRONGLY COMPARED TO OTHER PUBLIC SECTOR SCHEMES.

Moreover, several of those involved in the project noted that this is having a detrimental effect on members:

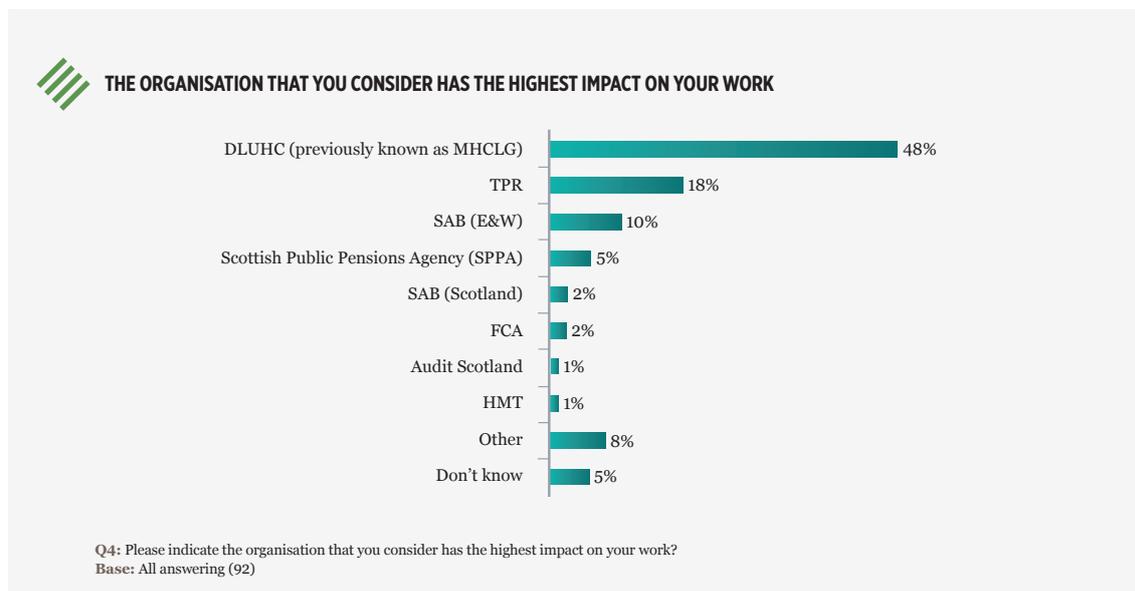


THE MAIN ISSUE IS THAT THE RULES ARE TOO COMPLEX FOR SCHEME MEMBERS TO UNDERSTAND.

This position was reinforced in survey responses which were unable to converge on a central point of authority for the LGPS. Less than half of all respondents considered that the highest impact on their work in the LGPS came from the lead department (DLUHC) and 5% of respondents were unclear at all about which organisation has the biggest impact.

In Scotland, five respondents saw the Scottish Public Pensions Agency (SPPA) as having the highest impact on their work, with two saying SAB (Scotland). In Wales, there were more mixed views with four respondents saying TPR had the highest impact and three respondents saying DLUHC.

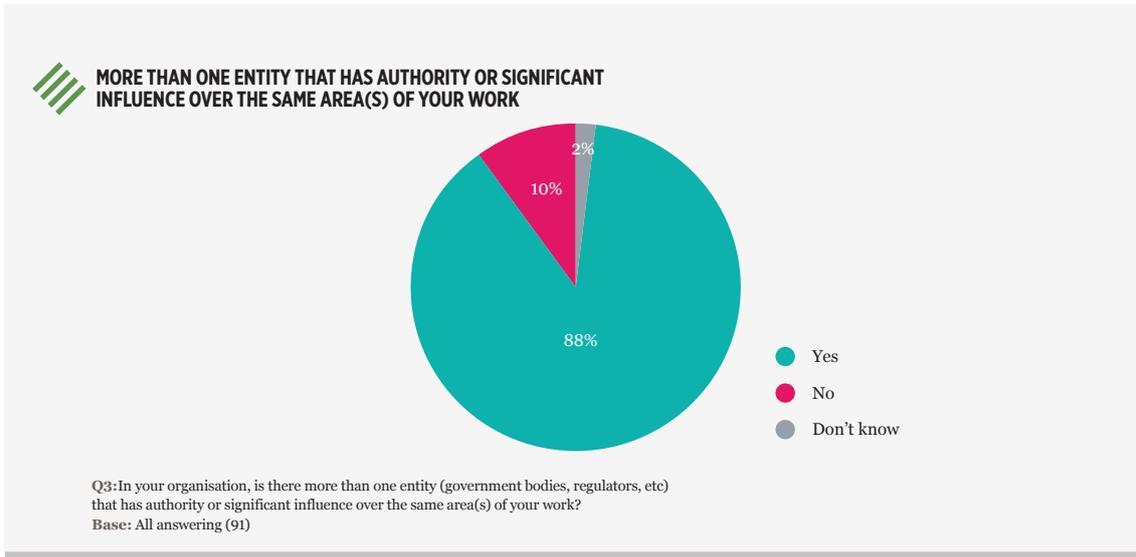
Chart 2: LGPS Regulatory & Operating Environment



In our survey, as seen in Chart 3, most funds reported that more than one oversight body has influence over areas of their work (88%). Larger funds, for instance those with more than £5.5 billion in assets were more likely to feel that DLUHC has the biggest impact (55%) than those with less than £1.5 billion in assets. Similarly, those with 250 employers or more were more likely to feel that DLUHC has the biggest influence (72%) than are those with less than 100 employers (27%).

One in five felt that TPR has the highest impact on their work (18%). Those with funds of less than £1.5 billion were more likely to believe TPR has the biggest impact (33%) than the larger funds (13%). The driver of this is unknown; it is possible that size of fund alone is not the only reason for this experience on the ground. It may also be influenced by the specific role of individuals who participated in the survey, and what their day-to-day duties are.

Chart 3: The LGPS Regulatory & Operating Environment



SO, IT'S BETTER IN THE SENSE THAT THERE'S CLARITY NOW THAT WE COME UNDER THE REGULATOR'S OVERSIGHT. BUT IN TERMS OF THE CODES OF PRACTICE FOR THE REGULATOR, SOME BITS OF IT APPLY TO THE LGPS, SOME DON'T, IT'S NOT ALWAYS CLEAR WHETHER LGPS IS CAPTURED BY IT, PARTICULARLY THE NEW MODULAR CODE THAT THEY ISSUED A CONSULTATION ON RECENTLY. IT WAS VERY UNCLEAR IN CERTAIN AREAS.



“”

PRIMARY LEGISLATION IS OFTEN NOT WRITTEN WITH THE LGPS IN MIND, IN PARTICULAR WITH AN AWARENESS THAT IT IS ADMINISTERED REGIONALLY.

“”

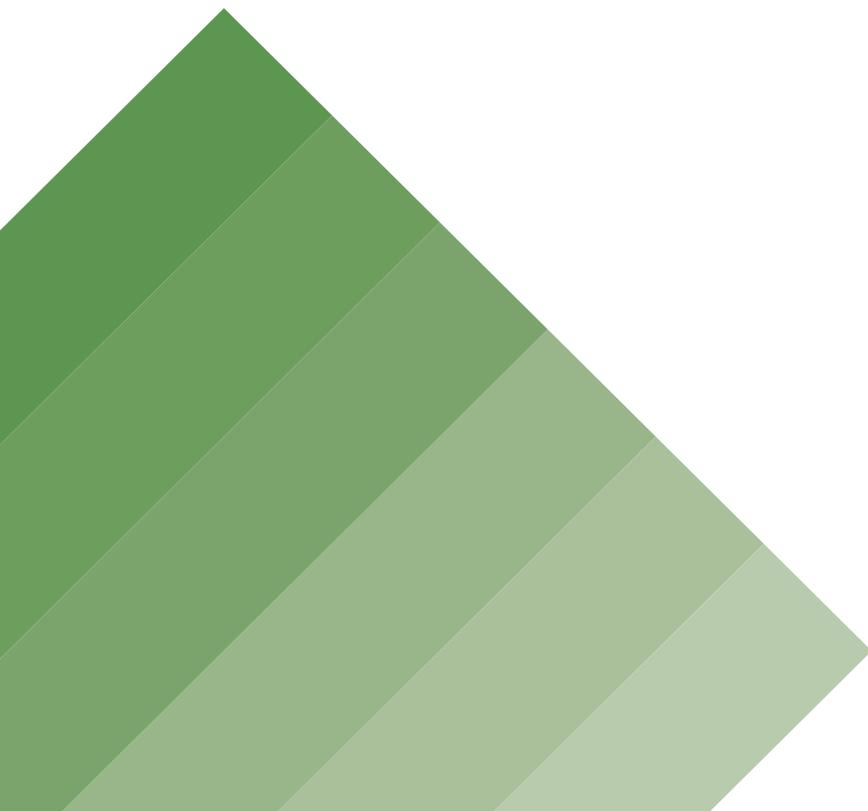
THERE ARE FAR TOO MANY OVERSIGHT BODIES AND THE WAY THEY LINK TOGETHER IS CONFUSING. ALSO NO ONE APPEARS TO OVERSEE THE OVERSIGHT BODIES AND THEREFORE LEVEL OF EFFECTIVENESS/ INEFFECTIVENESS IS NOT ASSESSED.

“”

CLARITY OVER PRIMACY OF REGULATION/APPLICATION OF REGS AND SO ON WOULD BE WELCOMED.

“”

SIMPLY TOO MANY BODIES INVOLVED.



CONCLUSION OR RECOMMENDATION: THE LGPS REGULATORY & OPERATING ENVIRONMENT

CONCLUSION

It may be that as smaller funds will have less resource, they will concentrate their attention on compliance with TPR’s regulations and guidance, rather than focusing on the origination legislation or policy from DLUHC that TPR’s work will often be built on.

RECOMMENDATION 2 (LGPS REGULATORY & OPERATING ENVIRONMENT)

It may be beneficial for DLUHC to have more active outreach across the LGPS in England and Wales, across all fund sizes, perhaps even through the PLSA, so that more effort is put into ensuring that smaller funds’ views are taken into consideration in policy-making.

WHO SHOULD TAKE THIS FORWARD:

DLUHC, PLSA

RISK IDENTIFIED: 1 (THE LGPS REGULATORY & OPERATING ENVIRONMENT)

There are implications arising from the current situation. LGPS funds are taking increasingly individual approaches based on local interpretations and in some instances legal advice. This mode of operation is resource intensive and diminishes opportunities for synergies across funds. There is also a risk that interpretations of guidance may be challenged. If realised, this risk would have reputational damage and could introduce unintended consequences for the scheme.

DLUHC V DWP FOR ENGLAND AND WALES

In July 2021, Pensions Minister Guy Opperman was quoted in the media, days before the commencement of the PLSA qualitative research, commenting on the fact that the LGPS is not supervised by his department, but instead the Ministry for Housing, Communities & Local Government (now DLUHC) – that this is “a slight anomaly”. He is quoted as also saying, “I personally think that’s wrong. It would be my view that it would be better to have all such schemes under one house... and that the LGPS would be run by DWP.”²⁰

²⁰ Mallow Street, “Opperman: LGPS should be under DWP”. 15 July 2021. Available at: <https://www.mallowstreet.com/Article/b60467>



CONCLUSION OR RECOMMENDATION: THE LGPS REGULATORY & OPERATING ENVIRONMENT

RECOMMENDATION 3

As there is currently no entity looking at the whole of the LGPS, drafting a strategic “regulatory map” would highlight to external stakeholders the complexities in which the LGPS operates. It would showcase the need for:

- (a) a significant push to ensure the existing framework works in a more joined-up and coherent way; and
- (b) there should be an examination of the benefits of a more centralised approach that could involve creating a new body or giving an existing body greater powers.

This draft map from the PLSA would help Funds to clearly understand what applies to them, and would help ensure that the LGPS voice is represented and weighted accordingly in central government decisions that affect the sustainability of the LGPS and its day-to-day running directly.

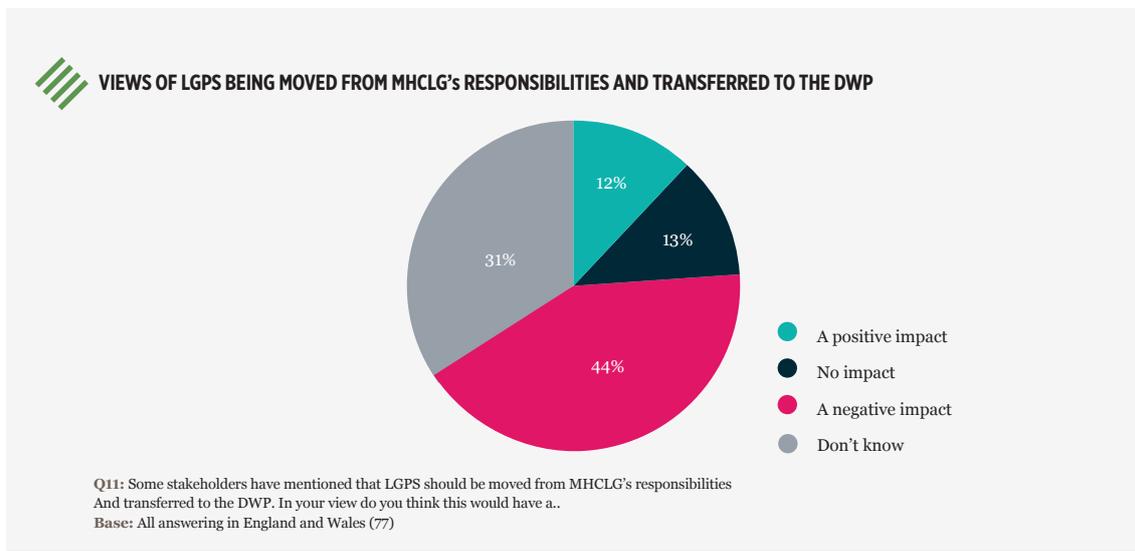
WHO SHOULD TAKE THIS FORWARD:

PLSA, Funds

The rationale for this change is unclear; however, it would align departmental oversight of the LGPS with that for the National Employment Savings Trust (NEST), another Government backed multi-employer workplace pension scheme that, like the LGPS, looks after small employers and small pots often linked to lower earners. This change would also bring the LGPS into a primarily pensions focussed – rather than a local government policy brief. There would of course be significant issues to assess for such a change and not without risk; it would further distance the LGPS from other public sector schemes, local accountability and its core purpose of providing support for local government and other public service employers and scheme members (see section on Theme 3: Savers).

Survey respondents did not have a definitive view on whether changing the LGPS lead department would be desirable. The largest proportion (41%) believed such a change would be negative, with only 12% saying that it would be a positive move. An interesting finding here is that 35% – over a third of respondents – did not know whether moving from DLUHC would have a positive or negative impact. This could be driven by frustrations seen in earlier analysis regarding the complexity of the current regulatory and operational landscape, which could prompt some to wonder if a move to a pensions focussed brief, and change of departmental lead, may mitigate any perceived conflicts of interest (see Chart 1, Chart 2 and Chart 3) within the current LGPS regulatory and operational frameworks.

Chart 4: The LGPS Regulatory and Operating Environment



Note: For Chart 4, at the time of the survey fieldwork in Autumn 2021, DLUHC was still known as the Ministry of Housing, Communities and Local Government (MHCLG)

Perceptions also varied by country, so any further work on this point should investigate what is driving these differences of opinions between borders. Six out of the eight responding from Welsh funds believe it will have a negative impact. However, among those working for Scottish funds, two people believed it will have a positive impact, one a negative impact and four people were unable to say.

PENSIONS COMMITTEES



PROCESS[ES] FROM A PENSION BOARD PERSPECTIVE APPEAR TO WORK WELL AND THERE ARE GOOD INTERNAL RELATIONS WITH STAFF AND THE PENSIONS COMMITTEE.

Local authorities establish pension committees with delegated powers to deal with all functions of the local LGPS scheme on behalf of the local authority; these committees are served by local elected councillors and sometimes employee and employer representatives. Members of the pension committee are not trustees but are often considered to have quasi-trustee roles. Local LGPS funds are separate to the finances of the local authority.

While the research work focused on the external stakeholder landscape, the role of pensions committees was raised as well by project participants.

As seen in **Chart 5**, three-quarters felt their pensions committee is focussing on the right strategic priorities and issues (77%). Six per cent did not feel that this is the case (6%). Those from smaller funds were less likely to agree (55%) than those from larger funds (92%). Given the important role pensions committees have in setting investment approach, governance, funding, administration and communication to scheme members for funds, it is important to further explore why this divergence between small and larger funds occur.



Separately there are currently no consistent training requirements and expectations for elected officials (although this is expected to be addressed by the E&W SAB Good Governance project). Additionally, it was felt that the lack of long-term consistency of the level of knowledge of decision-making bodies in general was operationally difficult for the LGPS, and that regular turnover of committee members can hinder the effectiveness and efficient operations of committees, risking sub-optimal decision-making. For instance, one project participant expressed the following:



EVEN IF I WAS CHAIRMAN OF THE COMMITTEE NOW, NEXT MAY AN ELECTION COMES AND IF I DON'T GET RE-ELECTED, SOMEBODY ELSE IS GOING TO BE SITTING THERE. AND BECAUSE OF THAT, YOU LOSE SOME CONTINUITY.

CONCLUSION OR RECOMMENDATION: THE LGPS REGULATORY & OPERATING ENVIRONMENT

RECOMMENDATION 4 (LGPS REGULATORY & OPERATING ENVIRONMENT)

It may be necessary to offer standardised and mandatory training courses, which could make use of CIPFA guidance and recommendations from E&W SAB Good Governance project.²¹

WHO SHOULD TAKE THIS FORWARD:

Funds; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR

Chart 5: The LGPS Regulatory & Operating Environment



AGREEMENT TO: I FEEL OUR PENSIONS COMMITTEE IS FOCUSING ON THE RIGHT STRATEGIC PRIORITIES AND ISSUES



● Strongly agree ● Agree ● Neither agree nor disagree ● Disagree ● Strongly disagree ● Don't know/not applicable

Q36: To what extent do you agree with the following statement: I feel our Pensions Committee is focusing on the right strategic priorities and issues.
Base: All answering (61)

21 SAB Secretariat (2021) Letter to Luke Hall MP. Available at: https://www.lgpsboard.org/images/Other/Annex_to_Good_Governance_letter_110221.pdf

COLLABORATION

Through the workshops and survey responses it was clear that almost all LGPS funds already work with or work collaboratively with other LGPS funds (97%), with most working with other funds to share knowledge (86%). Almost two in five (37%) said they work collaboratively to develop guidance.

THE NATIONAL LGPS PROCUREMENT FRAMEWORKS²²

2022 marks ten years since the first National LGPS Framework went live, after Lord Hutton’s Independent Public Service Pensions Commission report advocated building upon a strong foundation of collaboration consistent with retaining local identity and accountability.

Set up “by the LGPS, for the LGPS”, experts lend their experience to help shape procurement frameworks that can meet the needs of all Funds and Pools across the LGPS. Funds and Pools developed the Specification of Requirements and Invitation to Tender documents, which play a key role in evaluating the responses and contribute to the set-up costs of each Framework. The Frameworks are hosted by the Norfolk Pension Fund, where they are supported by a small, dedicated team, but once a Framework is completed it is available for all LGPS Funds and Pools, as well as wider public sector pension schemes to benefit from based on their own needs.

The Frameworks cover every aspect of the LGPS’ potential procured services and are compliant with public sector procurement regulations and best practice. They therefore offer an efficient procurement route for both users and providers. They also enable the LGPS to leverage better service quality and price through combining purchasing power, while also supporting local decision-making and service requirements.

Since 2012, 99% of LGPS Funds and all the LGPS Pools have used the Frameworks. As a result, the LGPS has benefited by an estimated **£150m savings** and the equivalent of almost **200 years of effort**.

They are a direct example of Funds and Pools with shared interests and vision collaborating effectively to transform the marketplace and deliver benefits both locally and nationally across the entire LGPS.

The forums used to bring LGPS funds together varied: a third said they engage with SAB working groups (33%), while a similar proportion have shared services (e.g. Customer Relationship Management/back office).

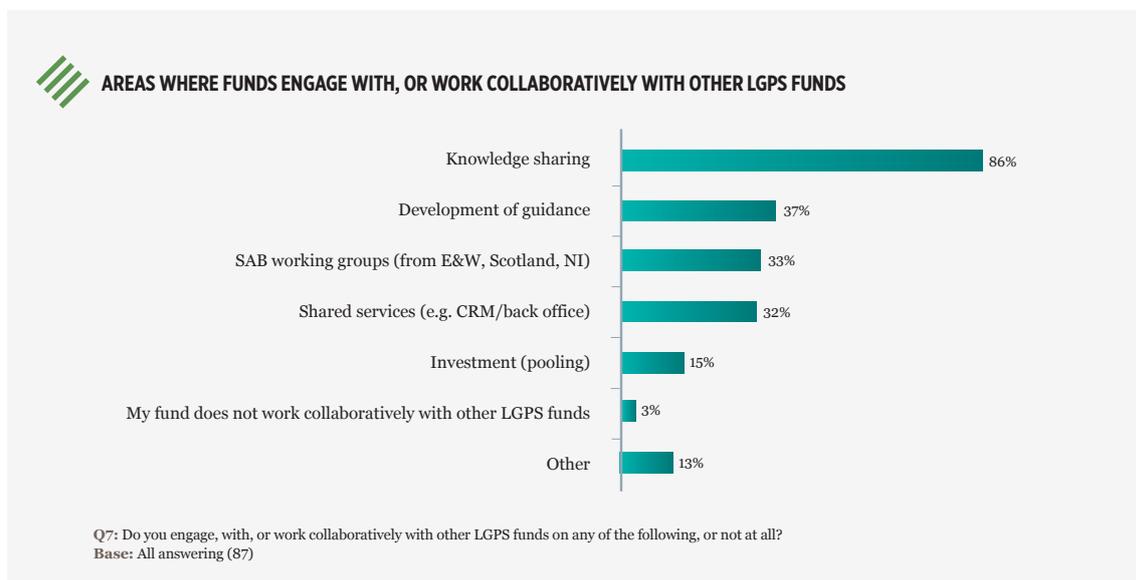
Those with a greater number of employers appeared more likely to share knowledge, have shared services and are part of SAB working groups (96%, 44% and 40% respectively) than those with fewer employers (77%, 23%, 23% respectively). Similarly, the larger funds were more likely to be part of SAB working groups (48%) than were the smaller funds (13%).

²² <https://www.nationallgpsframeworks.org/>



Few (three per cent) said they do not engage or work collaboratively with other LGPS funds.

Chart 6: The LGPS Regulatory and Operating Environment



Overall, the tendency towards collaboration between funds is seen as a positive across the scheme. The workshop discussions however shone a spotlight on differing interpretations on how much more collaboration there could be. Some individuals identified that while there is a wealth of good will to share information and for funds to work together, there are still very localised approaches to governance, which in the past have acted as barriers to moving to more comparable and consistent ways of doing things. This issue of “different/localised ways of doing things” reappears again in later sections of the final report around talent management and the suggestion to possibly “rebrand” the LGPS to help with recruitment, retention and resourcing, by having more consistent job descriptions and different job titles, to better explain LGPS role duties and requisite skills to execute them. Please see Theme 4: Operational Sustainability (Systems and People).

One project participant told us:



THERE IS LIKELY TO BE GREATER COLLABORATION / SHARING OF STAFF AND RESOURCES GOING FORWARD.

Collaboration versus centralisation around regulatory governance

It is important to note that while inter-fund collaboration is positive, its reliance on informal sharing carries with it potential systemic risk of vital information not being widely disseminated or individual funds becoming marginalised.

CONCLUSION OR RECOMMENDATION: THE LGPS REGULATORY & OPERATING ENVIRONMENT

RECOMMENDATION 5 (LGPS REGULATORY & OPERATING ENVIRONMENT)

As funds are all at varying stages of development and progress on different operational and governance issues, the PLSA also recommends developing a common standard on governance and a “levelling up” of practice, with a focus on the type and quality of outcomes administering authorities should aim to achieve. A blueprint for this form of standard can be found in the FRC’s Stewardship Code.²³ A common standard of this type would be additive and beneficial to the existing sharing of best practice and to the wide-spread collaboration already in place. The England and Wales SAB’s Good Governance Project has also produced recommendations on how to provide this common standard.²⁴

WHO SHOULD TAKE THIS FORWARD:

DLUHC; Scottish Government; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR

SUMMARY OF UNDERLYING CHALLENGES FOR THE LGPS REGULATORY AND OPERATING ENVIRONMENT

UNDERLYING CHALLENGE 1

THERE IS NO SINGLE ENTITY LOOKING AT THE LGPS AS A WHOLE, WHICH CAN CAUSE THE NEEDS OF THE LGPS TO BE DE-PRIORITISED IN CROSS-GOVERNMENT DEPARTMENTAL DISCUSSIONS AND CAN CAUSE CONFLICTING OR AMBIGUOUS LGPS GUIDANCE

UNDERLYING CHALLENGE 2

OVERSIGHT OF THE LGPS: UNCLEAR HIERARCHY OF AUTHORITY

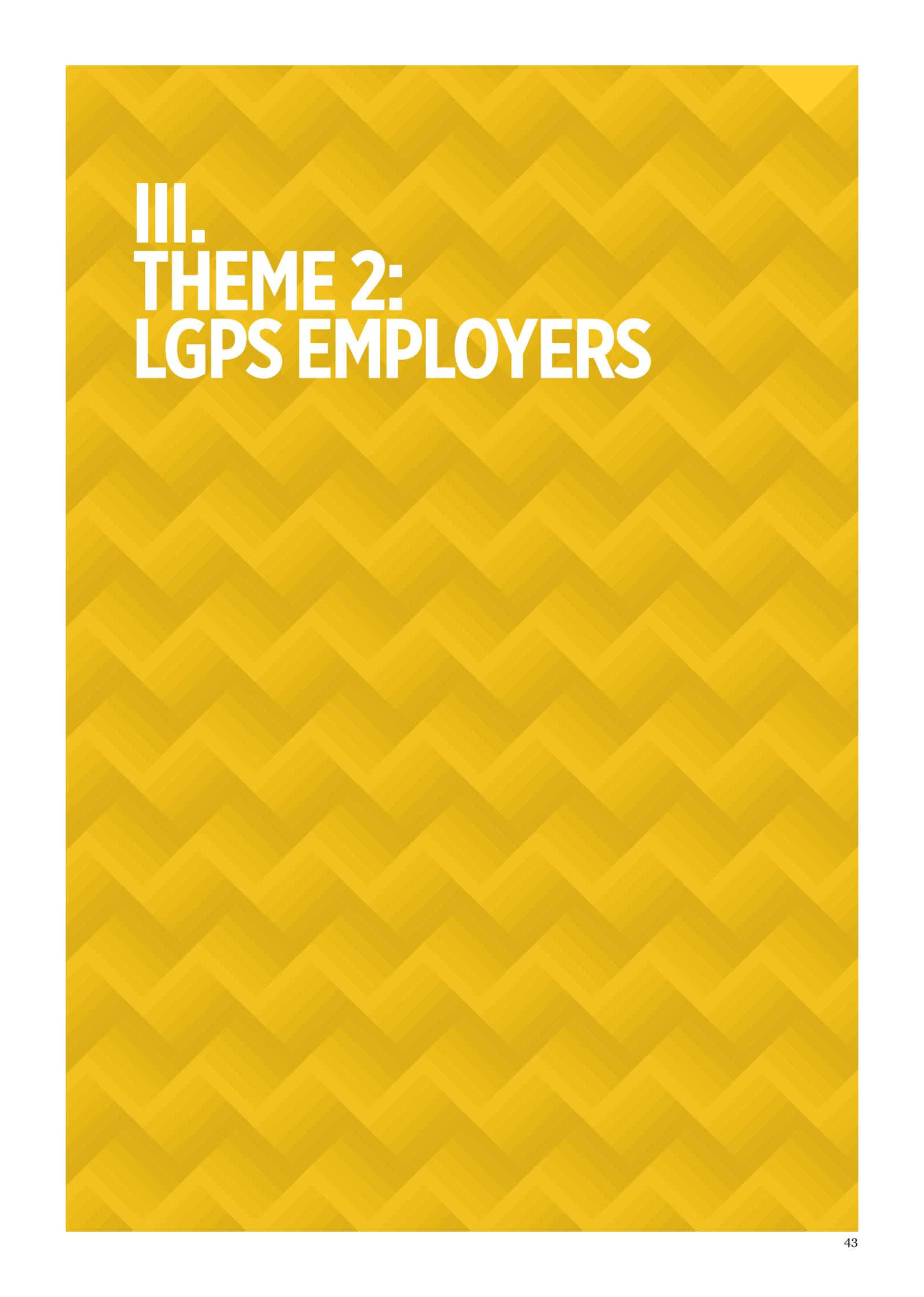
Overall, while there is much to celebrate within the LGPS in terms of its operational successes and innovation, there is a need for a more centralised support for the LGPS - a single entity could be a new one, an arms-length body, or be from an existing entity, with current responsibilities and role within government expanded.

Specifically, the PLSA recommends, as stated in its Conclusions and Recommendations 1, that there is deliberate and purposeful action taken for the disparate government and regulatory bodies in these two ways:

- (a) there should be a significant push to ensure the existing framework works in a more joined-up and coherent way
- (b) there should be an examination of the benefits of a more centralised approach that could involve a new or existing body with greater powers.

²³ FRC UK Stewardship Code. Available at: <https://www.frc.org.uk/investors/uk-stewardship-code>

²⁴ SAB Secretariat (2021) Letter to Luke Hall MP. Available at: https://www.lgpsboard.org/images/Other/Annex_to_Good_Governance_letter_110221.pdf



III. THEME 2: LGPS EMPLOYERS

OVERALL PICTURE OF THE LGPS AND ITS EMPLOYERS

96% of funds said their organisation understands their employers' needs.

90% felt their fund had a good or very good relationship with their employers.

KEY INSIGHT 2: LGPS EMPLOYERS

Consequences of public sector reforms that encouraged the outsourcing of local authority services, combined with central government arrangements of which the LGPS has very little influence over, leave many LGPS funds to bridge large gaps in employers' knowledge and understanding about LGPS employers' responsibilities to the scheme and to its savers, both before entry into the scheme, and during its time with the LGPS.

Additionally, for some types of employers, the LGPS is increasingly unaffordable, raising questions on which employers should be part of the scheme.

Since the 1980s, reforms have been initiated in the UK public sector, changes aimed to introduce more market-like operations, usually characterised by a focus on cost efficiencies, outsourcing and competition. For instance, the Local Government Act 1988 made competitive tendering compulsory for many services throughout the UK. In 2011, the Coalition government also continued to promote in England the greater use of different forms of service delivery with its White Paper on "Open Public Services". Reductions to local government funding between 2010-2015 also drove local authorities to explore different forms of public service delivery in an attempt to cut costs.²⁵

This continued growth in the use of outsourcing by local authorities since the 1980s – the reorganisation of many public services outside of local government – has had the single greatest impact on the LGPS Employer landscape. Over time, the sheer number and types of employers that now exist within the LGPS have created divergences in stakeholder objectives and interests. Additionally, the arrangements between central government bodies, such as DLUHC and Department for Education (DfE) in England and Wales, are ones that administering authorities have very little influence over. The inclusion of academies into the LGPS is one such occurrence, as is the ability of local authority run schools to outsource services. While our research shows that the overall relationship between funds and employers is a positive one, the patchwork of responsibilities for services or participating employers within central government decisions is sub-optimal. This in turn impacts the effectiveness of interactions between employers and the LGPS, with many employers often entering without full understanding of their responsibilities to the scheme. These challenges that face LGPS and its employers are discussed in this section.

²⁵ House of Commons Library (2019) Local government: alternative models of service delivery. Briefing Paper Number 05950. Available at: <https://researchbriefings.files.parliament.uk/documents/SN05950/SN05950.pdf>



For ease of discussion only within this report, the PLSA has adopted the categorisation of employers utilised by the England and Wales Scheme Advisory Board – that of the discussion of “tiers” of employers:²⁶

- **Tier 1** Employers are defined as local authorities and other public bodies with direct local taxpayer backing.
- **Tier 2** Employers are defined as Academy Trusts. Academies operate only in England, not in Wales, Scotland or Northern Ireland.
- **Tier 3** Employers are defined as those employers participating in the LGPS who have no local or national taxpayer backing or do not have a full guarantee or other pass-through arrangement with a body with such backing - for example: universities, Further Education (FE) colleges, housing associations and charities.

However, employers are not uniformly referred to in this way across the UK and even for reporting purposes within the LGPS, GAD, DLUHC, Scottish Government or the Department for Communities in Northern Ireland (DfC).

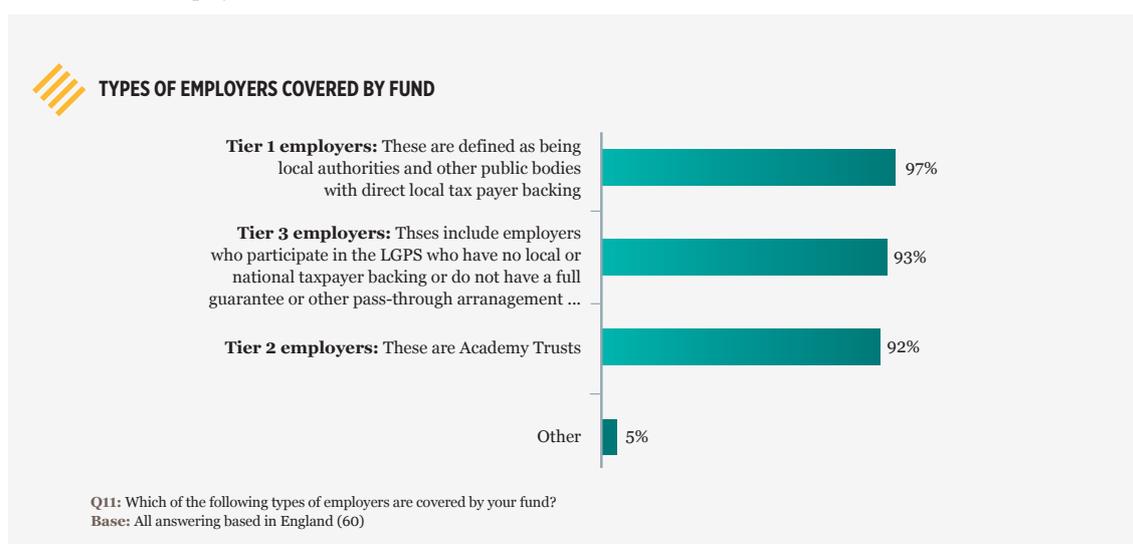
DIVERSITY OF EMPLOYERS

UNDERLYING CHALLENGE 3: A DIVERSE RANGE OF EMPLOYERS IN THE SCHEME – ALL WITH VARYING NEEDS - HAS INCREASED ADMINISTRATIVE COMPLEXITIES

Responses to our survey reflect the wide diversity of employers that comprise the LGPS. Of those that responded, most English funds covered Tier 1 employers (97%), with nine in 10 covering Tier 3 (93%) and Tier 2 at 92%; academies are only relevant for England.

In Scotland, eight out of the nine respondents said their funds covered Tier 1, while eight funds also said they covered Tier 2. In Wales, all of the funds said they covered Tier 1 employers while seven out of the eight respondents said they covered Tier 3 employers.

Chart 7: LGPS Employers



26 Please see: <https://lgpsboard.org/index.php/tier-3-employers#:~:text=For%20information%20Tier%201%20employers,direct%20local%20tax%20payer%20backing>.

Overall, the picture of the relationship between funds and employers is a very positive one:

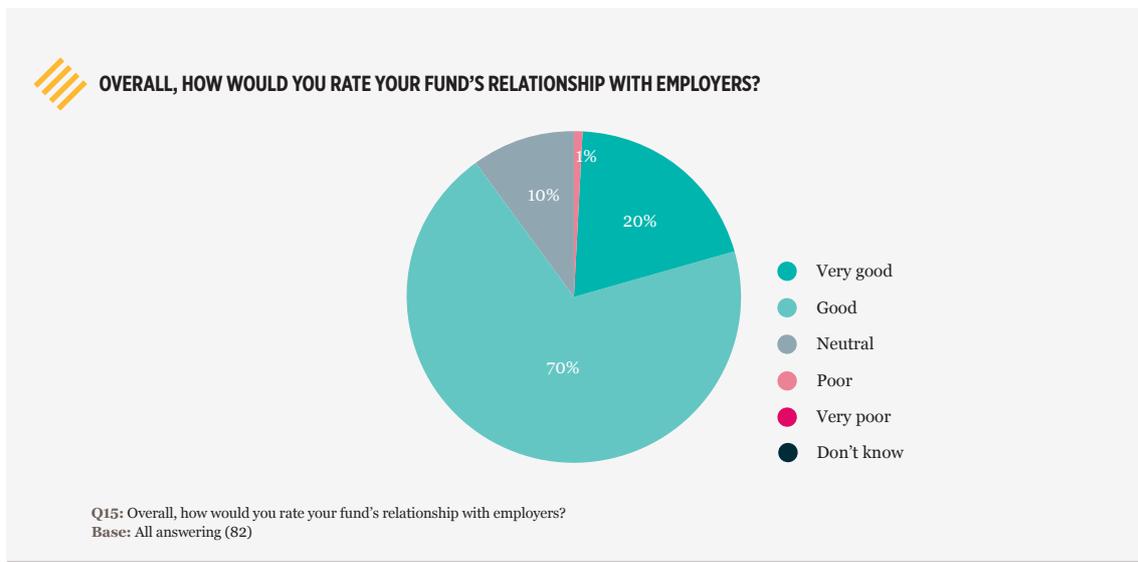
- Most respondents reported that they believe their fund has a good or very good relationship with their employers (90%), with one in ten saying they have a neutral relationship (10%), as seen through **Chart 8**. Only one percent believed they had a poor relationship with their employers.
- The vast majority of respondents (96%) also believed that their organisation understands their employers’ needs, with six in ten believing they understood their needs either extremely (14%) or very well (46%).
- Larger funds were more likely to say they understand their employers’ needs either extremely well or very well (72%), while smaller funds were more likely to say somewhat well (67%), rather than extremely or very well (27%). The data highlights that there is a link between resourcing and scale – that larger funds may have more resource at their disposal to devote towards maintaining relationships with their employers.

CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

CONCLUSION

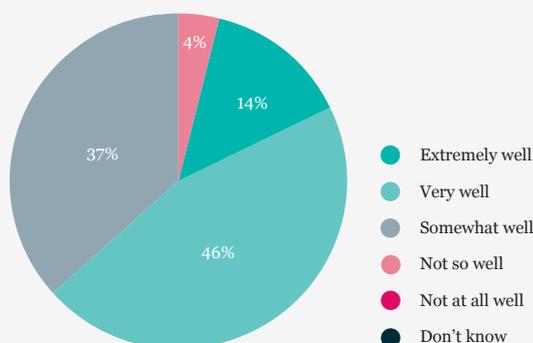
As highlighted under Theme 1: The LGPS Regulatory and Operating Environment, it remains unclear who is responsible for ensuring employers have appropriate knowledge of the LGPS, as there is no single entity with the needed powers looking at the LGPS as a whole; there is also an unclear hierarchy of authority of external governing bodies. As such, this is an example of how and why LGPS funds are taking increasingly individualised approaches based on local interpretations of guidance.

Chart 8: LGPS Employers





UNDERSTANDING OF EMPLOYERS' NEEDS



Q17: How well would you say your organisation understands your employers' needs?
Base: All answering (81)

CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

CONCLUSION

LGPS employers' knowledge of the scheme operation and of their own responsibilities, have become disjointed in some instances.

THE FUND AND EMPLOYER RELATIONSHIP: ADMINISTRATIVE COMPLEXITIES

While the overall view from LGPS funds of the relationship between funds and employers is a positive one, there are complexities that arise from having such a diverse range of employers. During our roundtables for part of the qualitative research, funds told us that LGPS employers' knowledge of the scheme operation and of their responsibilities, as well as key relationships between funds and employers, have become disjointed in some instances.

Examples of this disjointedness include the following:

- employers changing to new payroll systems which are unable to complete LGPS calculations;
- the increasing use of third-party agents or consultants to broker communications between employers and funds which can become costly for employers and further distances employers and funds from one another; and
- some employers not realising the magnitude of exit payments if they wanted to leave the scheme.

CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

CONCLUSION

The Pensions Administration Strategy²⁷ sets out roles and responsibilities for the Fund and Employers. Though not a statutory requirement, it is a recommendation of the England and Wales SAB’s Good Governance Project that each administering authority put an administration strategy in place.²⁸ While it is important that this administration strategy should be implemented, it still puts pressure on the fund to implement and monitor the embedding of the strategy. Funds have an increasing list of complex responsibilities to execute - with managing employer relationships being among them - all while talent management issues around recruitment, retention and resourcing remain a challenge. Please see Theme 4: Operational Sustainability (Systems and People) for further details.

“”

IF [EMPLOYERS] ARE RESOURCED TO DEAL WITH PENSIONS, THEY’LL TAKE THE TIME, WILL COME TO THE TRAINING. THEY’LL READ THE GUIDANCE DOCUMENTS AND SO ON. WE PROBABLY NEED TO THINK ABOUT THOSE THAT AREN’T RESOURCED.

—

“”

YOU NEED AN EMPLOYER WHO’S GOING TO BE RESPONSIBLE FOR PROVIDING US, THE ADMINISTRATOR, WITH THINGS THAT WE NEED IN A TIMELY MANNER. AND THAT DOESN’T ALWAYS HAPPEN.

“”

THE BIGGEST ISSUE I HAVE ABOUT CERTAIN EMPLOYERS BEING IN THE FUND ISN’T THEIR STATUS OF BEING IN [THE SCHEME]; IT’S THEIR ADMINISTRATION OF [THEIR DUTIES], WHILST THEY ARE IN THIS SCHEME.

—

27 Pensions Administration Strategy. Available at: https://pensionssharedservice.org.uk/media/1334/pensions_administration_strategy.pdf

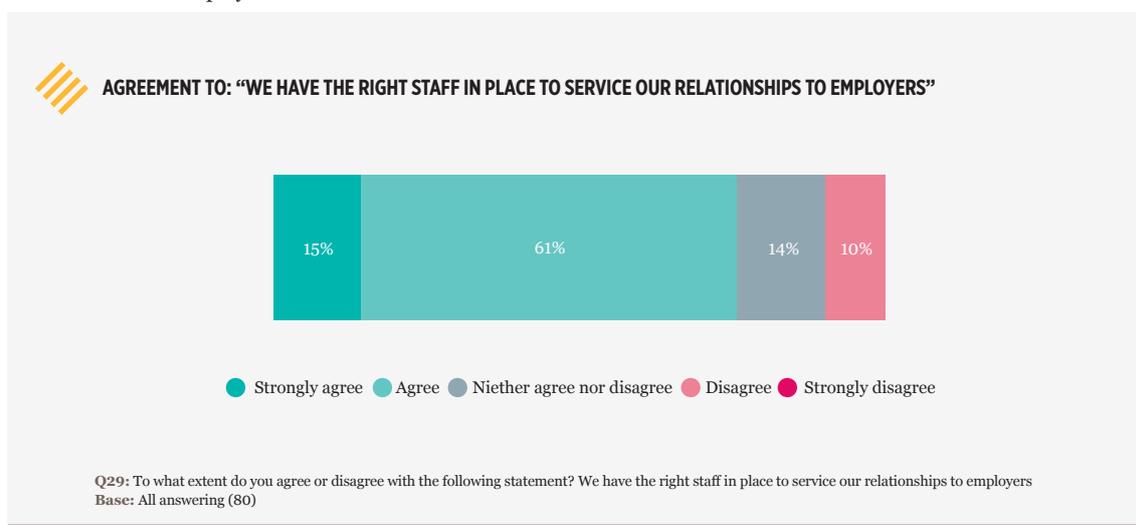
28 SAB Secretariat (2021). Letter to Luke Hall MP. Available at: https://www.lgpsboard.org/images/Other/Annex_to_Good_Governance_letter_110221.pdf



While the majority of respondents feel confident in servicing their relationships with their employers (see **Chart 10**), one in 10 did not feel they had the right staff in place to do so (see Theme 4: Operational Sustainability (Systems and People). Of these, most said they do not have enough staff to service relationships with employers or that the employer requirements are too complex.

Respondents from larger funds were more likely to believe they have the right staff in place to service employers (83%) than were those from smaller funds (54%). Indeed, a quarter of smaller funds (27%) did not believe they have the right staff in place to service their relationships with employers, mainly due to not having enough staff and the requirements being too complex.

Chart 10: LGPS Employers



CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

CONCLUSION

Overall, the relationships between funds and employers appear to be very positive. There are indications however that smaller funds may be less well positioned to manage the complexities arising from the diversity of employers in the scheme. This may indicate that a higher level of resource is required in the longer-term to maintain these positive links.

CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

CONCLUSION

Given that the two most common reasons cited for “not having the right staff to service relationships with employers” is “not having enough staff” and “requirements are too complex”, a two-pronged approach to address this issue may be needed. The PLSA recommends the following:

RECOMMENDATION 1

- Review the PLSA’s Talent Management Guide 2018 and share best practices on talent resourcing), and;
- Where possible, review and implement the recommendations under Theme 1: The LGPS Regulatory and Operating Environment, to ensure that there is a single view to help make regulatory requirements less complex and easier to navigate, in a way that addresses the LGPS’s needs.

WHO SHOULD TAKE THIS FORWARD:

England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR; FCA; DLUHC; Scottish Government; Northern Ireland’s DfC; CIPFA; Funds

UNDERLYING CHALLENGE 4: ACADEMIES (ENGLAND ONLY) - LGPS HAS VERY LITTLE INFLUENCE OVER CENTRAL GOVERNMENT ARRANGEMENTS

Outsourcing contracts to the private sector has had a significant impact on the composition of employers within the LGPS, as has the creation of academies in England. The 75% increase in employers in England and Wales between 2013 and 2020 is due to the growth of academies; as of March 2022, there are approximately 10,000 academies in England.²⁹ Most recent figures show that between 2017-18 and 2020-21, data from DLUHC’s statistical returns – as reported by E&W’s SAB – show growth in employers in England and Wales broken down in this way (academies fall into the second category here, under “centrally funded public sector bodies”):

- Local authorities and connected bodies (grew from 3,281 to 3,462);
- Centrally funded public sector bodies (grew from 6,730 to 8,335);
- Other public sector bodies (dropped from 1,329 to 956); and
- Private sector, voluntary sector and other bodies (grew from 5,711 to 6,194).

These changes have led to not just a divergence in the types of employers, but to a divergence in stakeholder objectives and interests.

²⁹ Department for Education (2022) Academies Management Information Data. Please see: https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fassets.publishing.service.gov.uk%2Fgovernment%2Fuploads%2Fsystem%2Fuploads%2Fattachment_data%2Ffile%2F1062678%2FPublished_List_-_March_22.ods&wdOrigin=BROWSELINK



For instance, DfE has little direct responsibility for the LGPS and thus may not give full consideration to the impact of its decisions regarding academies on the scheme. Other, largely hidden, complexities that can add challenges to scheme operations include the ability of local authority run schools to appoint their own payroll provider, which can reduce the timeliness and quality of data being submitted to LGPS funds.

With academies, which are only in England, another complication can arise when they are set-up; administering authorities (sometimes in conjunction with local authorities) differ across the board in how generous they are with respect to the opening funding position of the new employer's section of the fund. Some authorities transfer assets over to 100% match the opening liabilities of the new employer, whereas other authorities use methods which result in the new employer's section of the fund being in deficit, and in some cases significantly so. Those local authorities that use more conservative methods (from the new employers' perspective) to calculate this asset transfer are effectively passing a debt from local to national taxpayers. This creates questions around responsibilities over these liabilities and can cause operational challenges for funds.

CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

CONCLUSION

Funds have to react to what central bodies decide to do and how they decide to execute decisions. Additionally, funds have little influence over these final decisions, which often have significant implications for how LGPS funds operate. These challenges raise questions around responsibilities over liabilities as they pertain to academies in England.

RECOMMENDATION 2

The PLSA recommends that central government and devolved administrations actively involve local and administering authorities in policy decisions the scheme will be required to execute. As recommended in Theme 1: LGPS Regulatory and Operating Environment, developing a single view of the LGPS is crucial, as is the need for an examination of the benefits of a more centralised approach that could involve a new body or an existing one with greater powers. (see Recommendation 1 under Theme 1)

WHO SHOULD TAKE THIS FORWARD:

Funds; DLUHC; Scottish Government; Northern Ireland DfC; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards

COMMON APPROACHES TO TRANSFERRING ASSETS TO A NEW EMPLOYER – AND WHY IT CAN BE SO COMPLEX

The following is a summary of illustrative complexities funds encounter in managing their employer relationships, assets and liabilities, alongside other regulatory and operational responsibilities – complexities in part created by macro policy decisions by central departments like DfE and DLUHC, of which the LGPS has little influence over.

Method 1 100% Funded - Transferring assets equal to the value of the liabilities on the transfer date. This will likely alter the previous employer’s funding level.

- **Example:** Often used for transferee admission bodies where they are only likely to be participating in the fund for a relatively short period of time. If the fund were to use one of the other methods a cessation deficit would likely follow at the point the employer’s participation in the fund terminates.

Method 2 Share of funds – Transfer assets equal to the funding level of the ceding employer. This will retain the previous employer’s funding level.

- **Example:** Local Authority A was 90% funded on the day of the transfer when their local authority school became an academy then the new academy school’s liabilities would start at 90% funded.

Method 3 Share of funds in surplus – As in ‘share of funds’ except if the transferring employer is in surplus cap the transfer at 100%.

Method 4 Fully funding deferred and pensioners – Only the active members will transfer to the new employer, but allowances are made for the fact that the responsibility for funding the benefits of former employees will remain with the previous employer. This tends to magnify the impact of a deficit.

Method 5 GAD adjusted liabilities – Transfer assets equal to the value of the liabilities on the transfer date but calculate the liabilities using the LGPS transfer value factors issued by the Government Actuary’s Department. These place a lower value on the liabilities.

Several of these methods mean that new employers start with a lower funding level than the ceding employer.

However, as the new employer has no deferred or pensioner members, they are heavily cashflow positive compared to the fund as a whole. Therefore, particularly during periods of positive returns (which have been prevalent over the last decade), the funding level of new employers have tended to improve relatively quickly towards that of the fund as a whole. This is especially the case for employers that are admitting new entrants, such as academy schools.

Most academy schools and community admission bodies (mainly housing associations and charities) will likely use Methods 2, 3 or 4 above.



EMPLOYER AFFORDABILITY, ENTRIES AND EXITS

UNDERLYING CHALLENGE 5: LGPS IS PERCEIVED AS UNAFFORDABLE BY SOME EMPLOYERS, ESPECIALLY SMALLER EMPLOYERS

Overall financial context

Latest valuation figures at time of publication show the LGPS to be in a strong financial position: the funding level in England and Wales at the 2019 triennial valuations was at 98%; it was 102% for Scotland in 2017 (publication of the Scottish LGPS 2020 triennial valuations expected); and 112% for Northern Ireland in 2019.³⁰⁻³¹

However, while it is important to note that while many LGPS funds are currently very well-funded – many indeed in surplus – this does not guarantee that future employer affordability and sustainability is not an issue. Funding level is only a single measure at a point in time and LGPS liabilities are set to grow in size and become more mature. An example from Lothian's main employer, The City of Edinburgh Council, shows that primary rates are in excess of 22% – and are exposed to potential investment market downturn and global recession. Pension increases are linked to Consumer Price Index (CPI) and therefore inflationary pressure may be anticipated. The notion that LGPS benefit structure, within the framework of the cost control mechanism, need not be reviewed for 25 years (as at 2014/2015 reform) could be viewed as very optimistic.

Funds are required from GAD's Section 13 Review to ensure solvency and long-term cost efficiency through contribution rates. The cost control mechanism is aimed at achieving a fair balance of risk between members of schemes and the Exchequer (and by extension taxpayers).³² However, it excludes any recognition of the uncertainty of investment returns.

AFFORDABILITY

Within our quantitative and qualitative research, funds consistently identified that an increasing number of employers perceive the LGPS as unaffordable. There is anecdotal evidence of an increase in the frequency of requests to leave the scheme.³³ As seen in Chart 11 below, funds reported that affordability is the main reason why employers express a desire to leave the LGPS (88%). These concerns appeared to be widespread, as just under two thirds of funds (59%) told us that at least some of their employers had expressed a desire to leave the LGPS.

It is however very important to distinguish between the different drivers of exits. Not all employers who seek to exit the scheme are doing so for purely financial reasons. While some employers may decide to move staff to cheaper pension schemes, there will be some who will be exiting because contracts for outsourced services have come to an end (which is common within large funds). Some small charities may have their final active member leave or retire, which may lead to a crystallising an unaffordable exit debt.

³⁰ These figures were correct as of May 2022. Please see: (a) Aon (2019) Report on the 31 March 2019 Actuarial Evaluation. Available here: <https://nilgose.org.uk/wp-content/uploads/2021/05/2019-Valuation-Report-for-LGPSNI.pdf>

(b) Clarke & Scanlon (2019) Local Government Pension Scheme Scotland. GAD. Available here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852463/191113Section13ReportMain.pdf

(c) Figures are from LGPS Annual Report 2020 (based on individual LGPS funds' statutory annual reports and audited financial statements). Available at:

<https://www.lgpsboard.org/index.php/schemedata/scheme-annual-report>

(d) Figures from latest England and Wales triennial valuations, completed in March 2022, are forthcoming but not publicly available as of May 2022.

³¹ E&W LGPS figure is based on an aggregate of local actuarial valuations, taken from individual funds' statutory annual reports and audited financial statements. Scottish LGPS figure is also an aggregate based on actuarial valuations and other data supplied to the GAD by individual fund.

³² (a) HMT (2021) Public Service Pensions: cost control mechanism consultation: Proposal to reform the mechanism. See paragraph 2.2. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/996111/Cost_control_mechanism_condoc_FINAL_VERSION.pdf

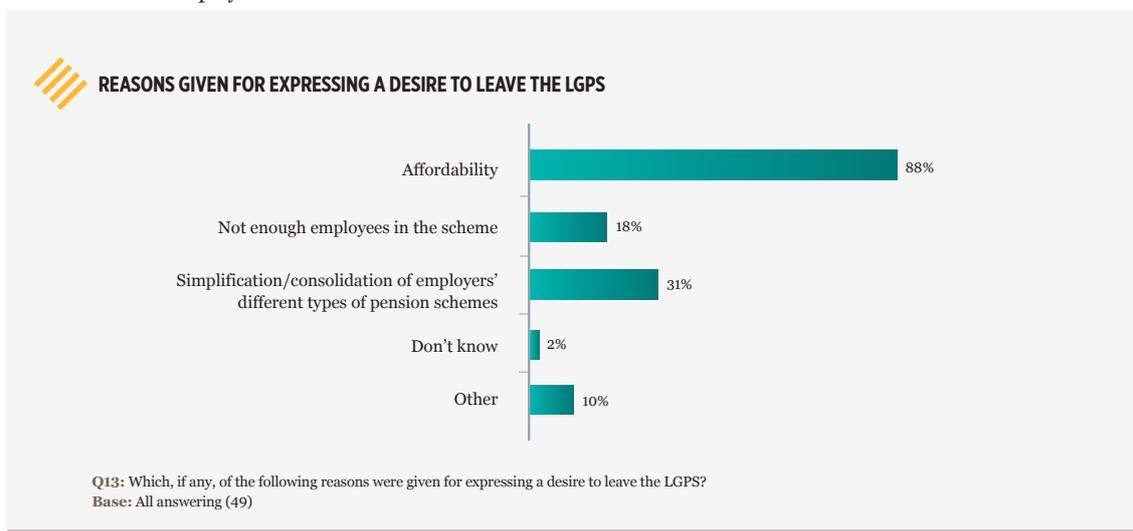
(b) Thurley, D (2022) Public Service Pensions: The Cost Control Mechanism. Available at: <https://commonslibrary.parliament.uk/research-briefings/sn06971/>

³³ Please note that LGPS Employers were not approached for this phase of the research project. All views here expressed are observed from qualitative and quantitative research with LGPS funds.

It is important to note that affordability of employers at entry affects LGPS funds less in Scotland. There is generally less demand from the charitable sector for admission to the LGPS in Scotland. Additionally, Scottish funds seek suitable guarantors before granting membership to employers with covenants much weaker than the Scheduled Bodies. New admissions by Scottish funds are very few, with usually only quangos (semi-public administrative bodies outside of the civil service in receipt of financial support from government) being successful in securing government backing. In England and Wales, under current LGPS regulations, recently admitted admission bodies will also have either a bond from a bank or insurance company, or a guarantee from another LGPs employer. However, admission bodies that were admitted under previous versions of regulations might not have these.

Issues around employer affordability are driven by both the terms of entry and the terms of exit. The following sections will examine employers’ points of entry and exit in turn as they relate to questions around affordability within the LGPS.

Chart 11: LGPS Employers



POINTS OF ENTRY

UNDERLYING CHALLENGE 6:
ISSUES AROUND EMPLOYER AFFORDABILITY ARE MORE OFTEN ABOUT THE POINT OF ENTRY, RATHER THAN AT THE POINT OF EXIT.

UNDERLYING CHALLENGE 7:
THERE IS CURRENTLY NOT ENOUGH EARLY ENGAGEMENT WITH EMPLOYERS ON THEIR RESPONSIBILITIES AS LGPS EMPLOYERS

Ensuring employers understand their obligations to the Fund at the point of entry is very important. For instance, cleaning or catering services can be outsourced without the implications for employees LGPS membership and the contribution rate for the new employer being considered. Contract negotiations commence and views of key bodies, including the LGPS fund, are not always fully considered during these discussions. As a result, organisations can join unprepared to meet their scheme contribution rate and do not always have full awareness of the commitments and actions required to administer its obligations to members. Early engagement and clear communication of responsibilities to prospective employers before they join, as well as during their time in the scheme, including implications for outsourcing services, are paramount.



CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

RECOMMENDATION 3

The PLSA recommends a review of employer engagement best practice is commissioned. This will ensure that employers' knowledge of their responsibilities (legal, administrative and funding) across the scheme are improved. This will also help improve awareness before employers officially join the scheme and also during their ongoing participation.

RECOMMENDATION 4

Funds should be proactive in providing information and assistance to existing and prospective employers. This should help to mitigate the potential for participating employers and outsourced providers failing to understand their responsibilities and risks.

WHO SHOULD TAKE THIS FORWARD: (FOR RECS 3 & 4)

England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR; Funds; Employers (including HR departments)

CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

RECOMMENDATION 5

We believe Funds should have something more aligned to TPR's notifiable events framework or an information sharing protocol to trigger and facilitate appropriate dialogue in a timely manner, when appropriate.

WHO SHOULD TAKE THIS FORWARD:

England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; TPR; Funds; Employers (including HR departments)

TIER 3 EMPLOYERS AND EXITS

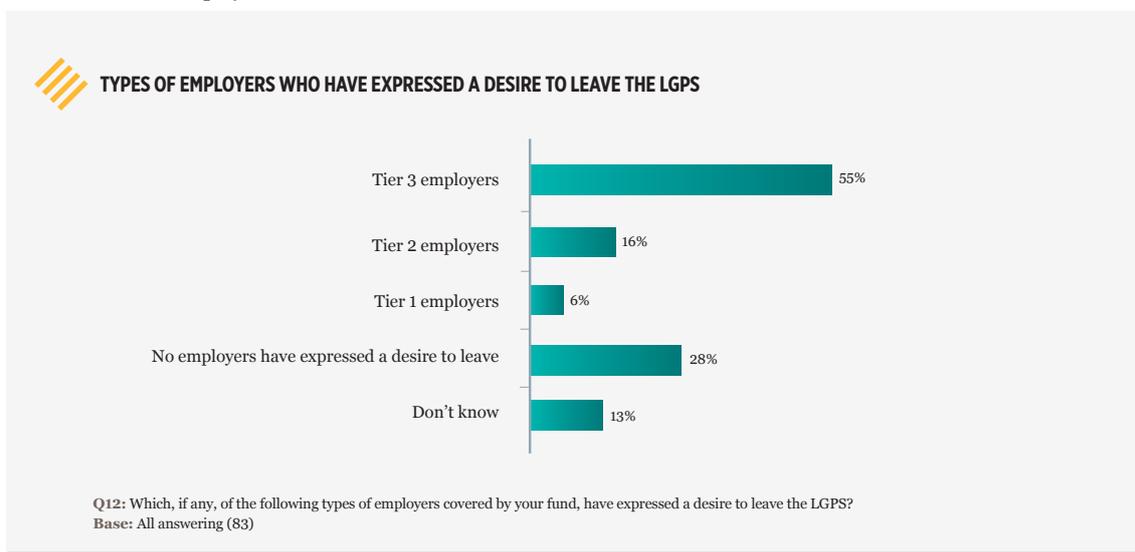
When digging deeper into this reported challenge of affordability, as shown in in Chart 7, our survey uncovered that:

- funds reported mainly Tier 3 Employers – those furthest away from any local or national taxpayer backing if they are no longer able to manage their contributions – are the ones who most frequently cite a desire to leave the LGPS, coming in at just over half at 55%.
- one in six had had Tier 2 Employers (Academy Trusts) expressing a desire to leave, while only six percent have had Tier 1 employers – local authorities and other public bodies with direct local taxpayer backing – expressing a desire to leave. However, LGPS regulations in England and Wales require academies and councils to offer membership to LGPS to their non-teaching staff, so in practice, academies would not be able to exit the scheme.

These survey results make sense in that those furthest from guarantees of a safety net, for what might be perceived as increasingly unaffordable costs to be employers of the LGPS members, would be wary of staying in a pension scheme it feels it cannot afford, particularly given wider economic and financial uncertainty in the shadows still from Covid-19 disruptions.

However, it is important to remember the wider context, that there is a diversity of circumstances amongst the types of employers within the LGPS, which allow greater or less flexibility in their exit or entry into the scheme. Some employers are required to provide access to the LGPS and there are those which have some form of government backing, affording greater flexibility on cash funding and account for pensions costs. There are financial pressures often linked to funding arrangements.

Chart 12: LGPS Employers



Our survey findings also support earlier findings from a 2018 Aon report commissioned by the England and Wales SAB, which found that Tier 3 Employers had frustrations around legal, administrative and funding issues relating the LGPS.³⁴

34 Aon (2018) Tier 3 Employers in the LGPS. Available at: https://lgpsboard.org/images/PDF/Tier_3_employers_in_the_LGPS_FINAL.pdf



CHARITIES WHO ARE IN THERE FOR HISTORIC REASONS - OVER TIME, THEY WILL GRADUALLY BE WORKED OUT OF THE SCHEME, BECAUSE THE SCHEME IS FOR THEM UNAFFORDABLE.

As mentioned elsewhere, this project did not engage with employers themselves, and the types of Tier 3 employers most likely to wish to exit is not quantitatively known. However, at least two funds reported in open comments that they see interest in exiting coming from the Housing Associations sector. More work would be needed to verify this.

We do know however that Tier 3 employers represent a significant portion of the LGPS employer landscape. In 2018, as reported by Aon, there were approximately 1,750 Tier 3 employers participating in the LGPS, with liabilities of about £27bn in respect of benefits for over 550,000 scheme members including active members, those who are in receipt of a pension and leavers with preserved benefits.

The reasons driving a desire for scheme exit seem to also correlate to fund size, though the reasons for this are currently unclear.

- Those in smaller funds (less than £1.5 billion) were less likely to have had employers expressing a desire to leave the LGPS (60%) than larger funds (87%) (i.e., those with more than £5.5 billion funds). At first glance this seems counter intuitive, as one might assume that larger funds might have more resource to work with employers' needs, and may simply be related to larger funds having a greater number of participating employers, or smaller funds engaging less (on average) with their employers.
- Interestingly, larger funds were more likely to say they have had more Tier 3 employers (70%) express a desire to leave than smaller funds (40%). While the driver for this is unclear, and would require further investigation, it is possible that smaller funds have less resource to engage with employers on whether they want to exit the scheme.

EMPLOYER CONTRIBUTION AND EXIT FLEXIBILITIES: BEST PRACTICE SUGGESTIONS

Accepting that there are employers that feel they can neither afford to exit the scheme or to continue to stay within it, anecdotal evidence has emerged that it is possible to help manage employer exits to the satisfaction of both fund and employer.³⁵ In particular, the recent Government announcements over employer contribution and exit payment flexibilities should be utilised.

Survey respondents suggested that the following could be considered:

- Implement employer flexibility policy in order to allow employers to use the provisions recently added to the LGPS Regulations. Where an admission body has a guarantee from another employer, the fund could seek the views of the guarantor regarding the terms of exit.

³⁵ Please see: <https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk>

- Relax the financial criteria over a period of time to help smaller organisations who could neither afford to remain or leave.
- Utilise different investment strategies for those employers who are “close to leaving”.
- Provision of indicative exit valuation for all employers with triennial valuation results.
- Utilise terminations policy (including use of Deferred Debt Arrangements (DDAs) and Debt Spreading Agreements (DSAs) to enable employers to leave without triggering cessation debt payable immediately in full.
- Have active discussions around designated body status and pass-through arrangements.
- Have active engagement about repaying cessation debt, perhaps through a Funding Strategy Statement consultation, or have official “Exit Material” prepared to outline processes and expectations.
- Review guarantee arrangements.

CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

RECOMMENDATION 6

The PLSA recommends commissioning additional work to explore and share best practice in both assessing employer risk early on and helping to manage both the risk and exit where appropriate (including through exit valuations). Emphasis on consistency of approach and options whenever possible across the UK may be helpful to both funds and employers. It was reported to the PLSA that there is already much good practice and information, but which best practice guides to use is not always very clear. Any work in this area would need to ensure not to duplicate work that has already happened in this space, such as that done by E&W’s SAB.

While employer affordability and exit challenges are not generally an issue in Scotland, it will be important to ensure that the Advisory Boards for Scotland and Northern Ireland are involved, to ensure best practice across the LGPS is captured.

WHO SHOULD TAKE THIS FORWARD:

England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; PLSA

RECOMMENDATION 7

The PLSA also recommends that the benefits of staying within the LGPS be actively and regularly explained to employers as well.

WHO SHOULD TAKE THIS FORWARD:

Funds, Employers (including HR departments)



CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

CONCLUSION

There is anecdotal evidence from the qualitative research that some LGPS employers are sometimes surprised at the high level of contributions, and equally surprised when exit fees are presented. A member reported to us that in the most recent triennial valuation that finished in March 2022, they identified employers that wished to exit and want to challenge the policy for calculating exit debts as set out in the Funding Strategy Statement (FSS).

This raises questions around who has responsibility to ensure that employers have enough knowledge about the scheme itself – how it operates, cost implications over time, exit valuations, and duties to savers (who will be their own employees), both before they join, and for the duration of its employer membership status within the Local Government Pension Scheme.

CONCLUSION OR RECOMMENDATION: LGPS EMPLOYERS

CONCLUSION

The LGPS as a whole could do more to draw out the benefits of the LGPS as a good value for money scheme.

However, the issue of affordability raises difficult questions about:

- whether LGPS is the most appropriate scheme for all the different types of employers currently participating within the scheme and
- whether active efforts should be made to encourage some types of employers to either stay or exit.
- These two observations were also raised in a report by Aon in 2018 on Tier 3 Employers, which was commissioned by the England and Wales Scheme Advisory Board.

RECOMMENDATION 8

As there continues to be a debate about the type of employers which should participate over the long-term in the LGPS, the PLSA recommends that further work is commissioned to answer this question. We note ongoing work by DLUHC to consider changes for Higher Education (HE) /Further Education sectors.

WHO SHOULD TAKE THIS FORWARD:

Funds; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards

SUMMARY OF UNDERLYING CHALLENGES FOR THE LGPS AND ITS EMPLOYERS:

UNDERLYING CHALLENGE 3:

A DIVERSE RANGE OF EMPLOYERS IN THE SCHEME – ALL WITH VARYING NEEDS – HAS INCREASED ADMINISTRATIVE COMPLEXITIES

UNDERLYING CHALLENGE 4:

ACADEMIES (ENGLAND ONLY) - LGPS HAS NO INFLUENCE OVER CENTRAL GOVERNMENT ARRANGEMENTS

UNDERLYING CHALLENGE 5:

LGPS IS PERCEIVED AS UNAFFORDABLE BY SOME EMPLOYERS, ESPECIALLY SMALLER EMPLOYERS

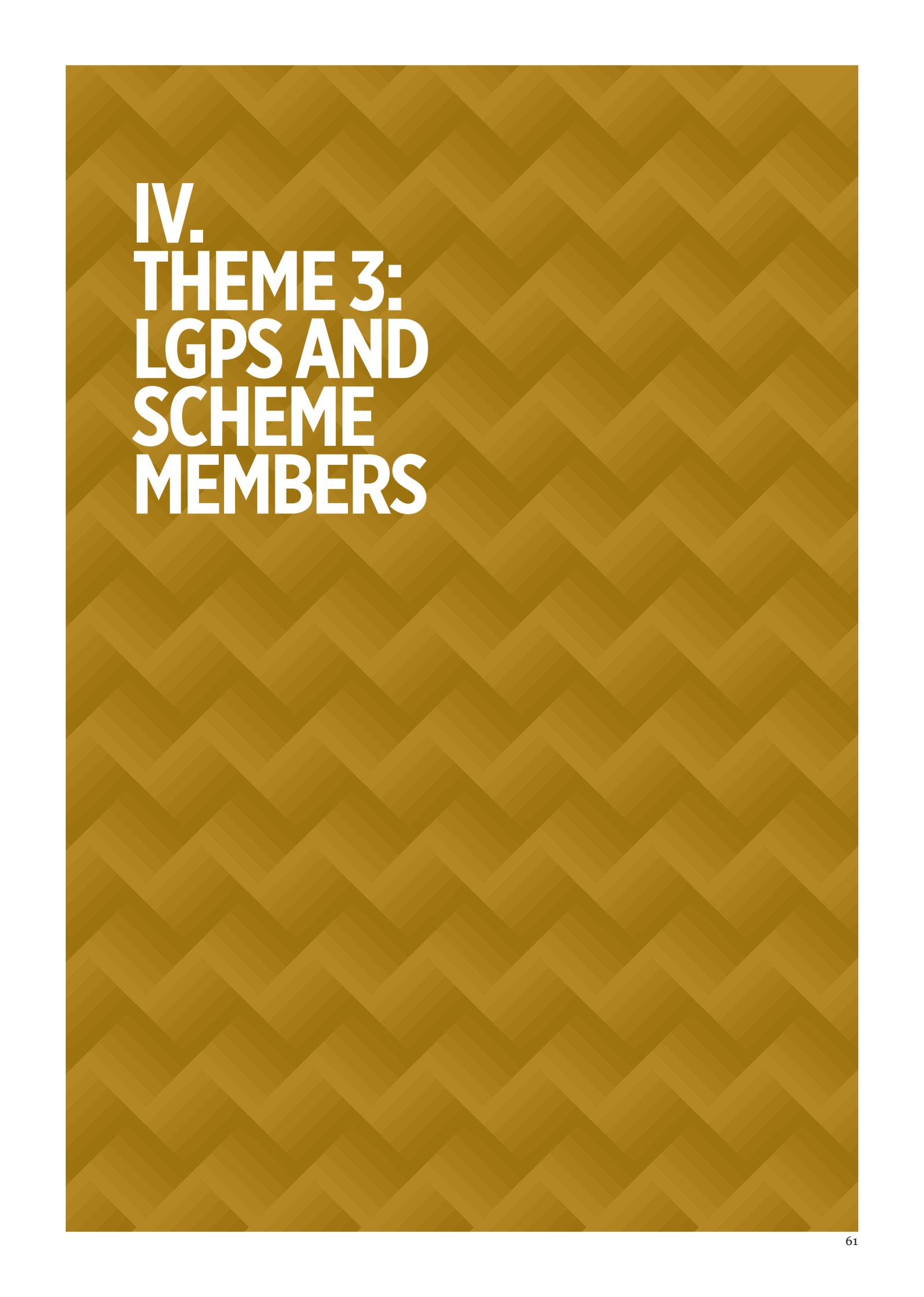
UNDERLYING CHALLENGE 6:

ISSUES AROUND EMPLOYER AFFORDABILITY ARE MORE OFTEN ABOUT THE POINT OF ENTRY, RATHER THAN AT THE POINT OF EXIT.

UNDERLYING CHALLENGE 7:

THERE IS CURRENTLY NOT ENOUGH EARLY ENGAGEMENT WITH EMPLOYERS ON THEIR RESPONSIBILITIES AS LGPS EMPLOYERS





IV. THEME 3: LGPS AND SCHEME MEMBERS

KEY INSIGHT 3: LGPS MEMBERS

LGPS members include lower paid workers, many of whom have contributed to the provision of essential local public services. The scheme acts as a vital financial safety net for these workers - an objective which is sometimes lost in political and policy debates, with assumptions that all public sector workers, across all public sector pension schemes, will have the same level of adequate retirement income.

The publication of the Pensions Commission reports³⁶ made acute the fact that a large proportion of the UK population were uninterested in thinking about – or under saving for a variety of reasons for – their retirement. As such, a key policy intervention, Automatic Enrolment (AE), was brought in to utilise inertia in saving behaviour. While AE is not traditionally considered as directly impactful on LGPS, all local authorities do in fact have an AE compliant scheme as their default. The importance of engaging with savers makes an important appearance in our research findings, at least in part due to some waves of re-enrolment and opt-out. As part of the PLSA’s wider research work on adequacy in retirement income, it will be necessary to understand the LGPS’s membership profile, as a step towards ensuring that those in the LGPS who are financially vulnerable are given the information and access to support they need to make informed choices in both accumulation and decumulation phases of life.

ENGAGING WITH SAVERS

OVERALL PICTURE ON ENGAGING WITH SAVERS

95% felt their organisation understand the characteristics of their beneficiaries/pension members.

84% felt they have a good or very good relationship with their beneficiaries/pension members.

HOW DO FUNDS CURRENTLY ENGAGE WITH THEIR SCHEME MEMBERS?

To begin to get a better understanding of what next steps funds could possibly take to “do more” for their savers, we wanted to find out more about how they currently engage.

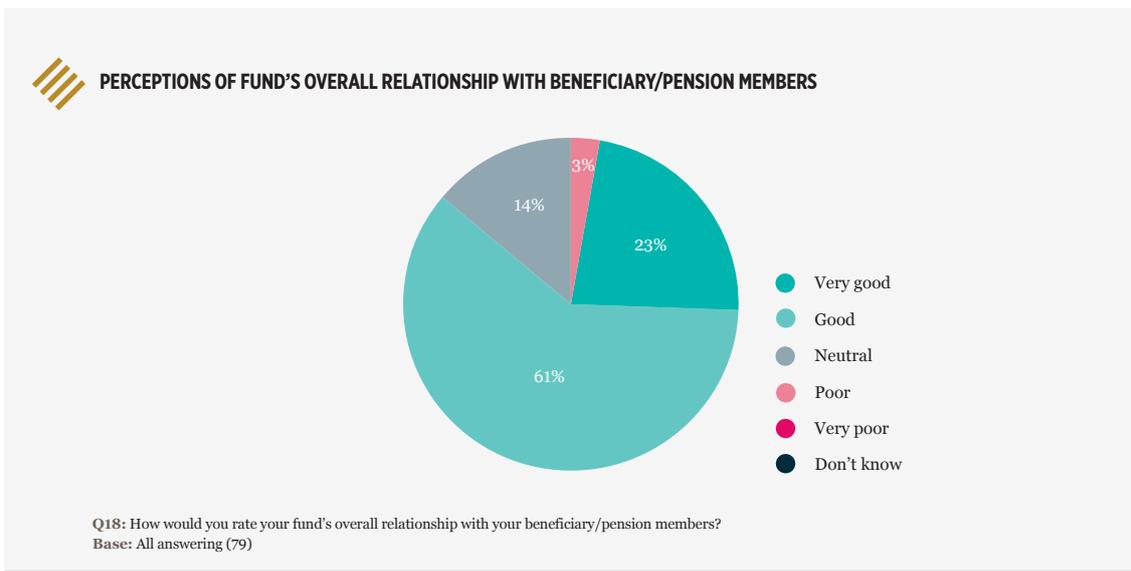
To set the context, we found that the majority of respondents to our survey were positive about their relationship with their beneficiary/pension members, with four in five (84%) saying they have a good or very good relationship (see Chart 13). The larger funds were more likely to say they have a good relationship with members (89%) than are the smaller funds (67%), hinting again at both engagement approach and resource allocation differences between large and small funds. Only three per cent believed they have a poor relationship (3%).

³⁶ (a) The Pensions Commission (2004) Pensions: Challenges and Choices. The First Report of the Pensions Commission. Available at: <http://image.guardian.co.uk/sys-files/Money/documents/2005/05/17/fullreport.pdf>

(b) The Pensions Commission (2005) A New Pension Settlement for the Twenty-First Century. The Second Report of the Pensions Commission.



Chart 13: LGPS and Scheme Members



CONCLUSION OR RECOMMENDATION: LGPS AND SCHEME MEMBERS

CONCLUSION

It may be useful to obtain a more detailed understanding on whether LGPS staff feel that current modes of communication are impactful – whether or not the communications achieve their intended purpose – to better understand how to most effectively progress relationships with members and to “do more” for them to fulfil and recognise their needs.

RECOMMENDATION 1

The PLSA recommends the LGPS engages further with the use of its Retirement Living Standards in its communications with its members, to help savers better understand what they should try to do now to have an adequate income in retirement.

WHO SHOULD TAKE THIS FORWARD:

Funds

Most funds use all tools available to them to communicate with members (see Chart 14). The vast majority communicate with their beneficiary/pension members via email (95%). Most also communicate via a web portal (87%) or letter (87%). Eight in ten (82%) also communicate via telephone, while over half say they have face-to-face meetings (54%).

Regardless of the mode of communication employed, it is notable that, when asked, “If money and time were no object, which of the following would have the biggest positive impact on your fund?”:

- Over half (53%) identified that communication tools and services with members would have the biggest positive impact (Chart 15), which is
- above spending more time working with employers (40%), paying staff more (38%), getting state of the art technology (33%) or better collaboration with other funds (28%).

Chart 15 supports qualitative and quantitative evidence elsewhere in the research that LGPS funds feel very strongly about wanting to do more for savers (for instance with more communication tools and services for members), more so than doing more for themselves (pay rises).

Chart 14: LGPS and Scheme Members

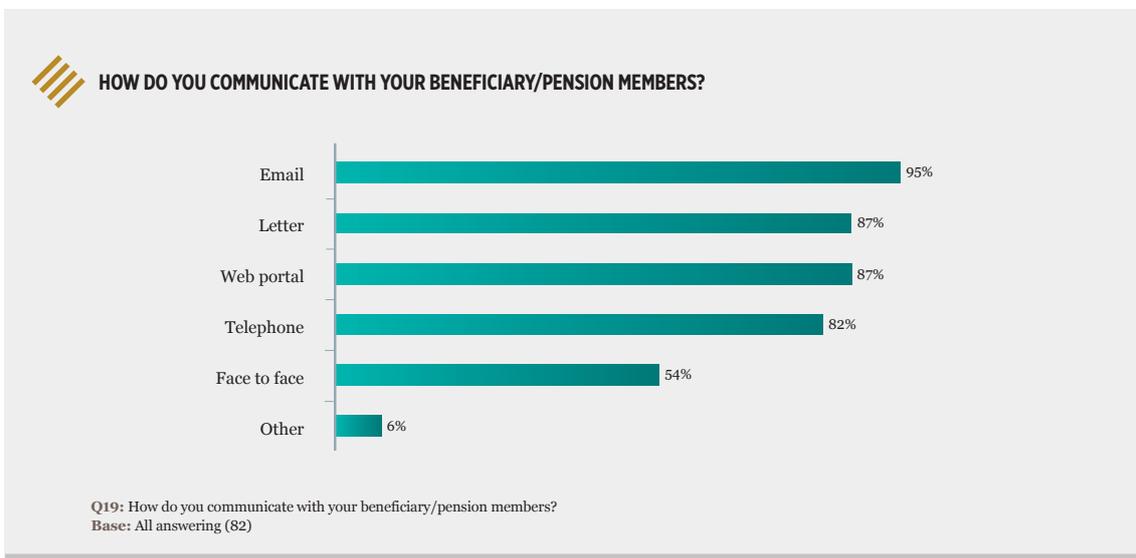
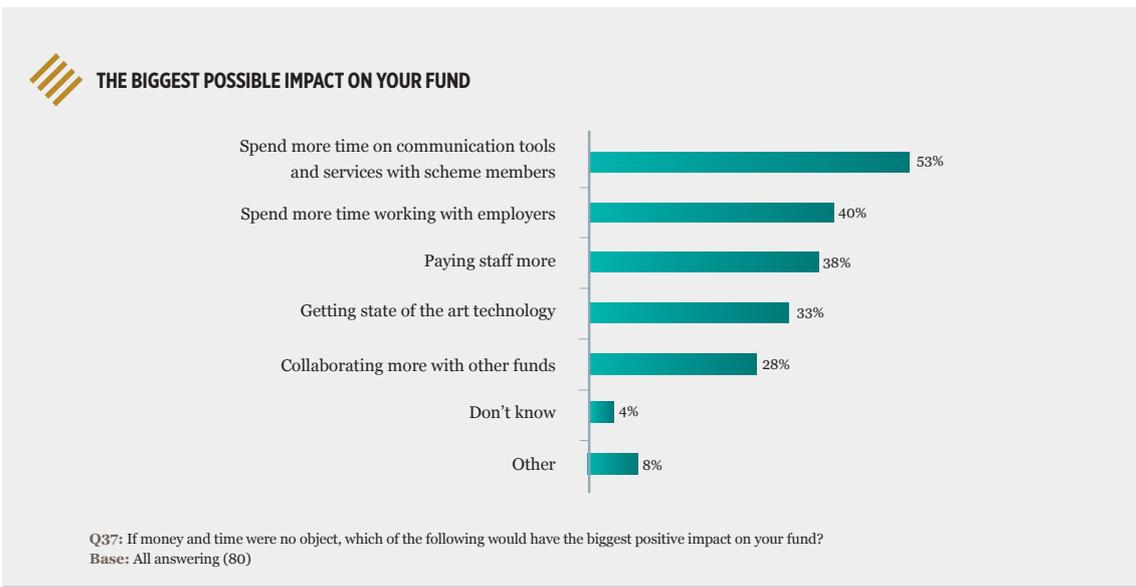


Chart 15: LGPS and Scheme Members





UNDERLYING CHALLENGE 8: **THERE IS CURRENTLY A GAP BETWEEN THE LEVEL AND TYPES OF SERVICE AND COMMUNICATION FUNDS WOULD LIKE TO PROVIDE TO SCHEME MEMBERS, AND WHAT IS CURRENTLY IN EXISTENCE.**

The issue of LGPS savers – who they are and what are their needs – came up consistently throughout our qualitative research.

Our workshops and interviews captured observations of a wider movement within the LGPS towards wanting to “prioritise savers”, including (but not limited to) acknowledging the importance of reminding employers of their responsibilities to scheme members. Other suggestions from members were:

- Enhance communications of benefits (e.g., pension forecasting through a calculator that could be made available through a mobile app).
- Creating or utilising other channels of engagement, such as raising awareness of the importance of pensions in general, or comparing their benefits to what defined contribution (DC) schemes offer, to showcase the benefit of having an LGPS pension.
- Recruitment and retention tools for LGPS employers, to discourage opt-outs from employers.
- Continue to improve LGPS service standards, requiring continued investment in both staff and systems.
- Protecting members from fraud risk and pension transfer scams, by ensuring safeguarding arrangements in place.

CONCLUSION OR RECOMMENDATION: LGPS AND SCHEME MEMBERS

CONCLUSIONS

- Funds feel that frameworks for governing the LGPS do not always prioritise the needs of the scheme’s members (savers) or make clear what it believes savers’ needs are; this is exacerbated by legacy issues within existing regulation.
- The approach to scheme members is variable and inconsistent, but our workshops and interviews observed a wider movement within the LGPS towards wanting to “prioritise savers”, including (but not limited to) acknowledging the importance of reminding employers of their responsibilities to scheme members.
- The needs of LGPS members may not be paramount in the wider regulatory, policy and political conversations around pensions, savers and investment, which often make the incorrect assumption that all public sector workers will have adequate retirements.

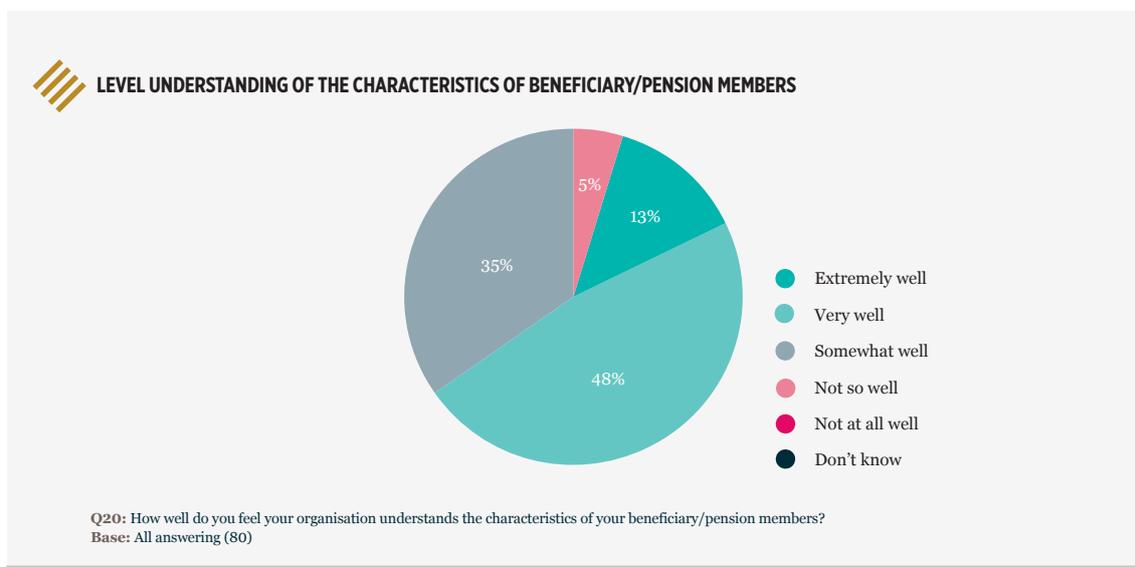
UNDERLYING CHALLENGE 9: DATA ON MEMBERSHIP PROFILE IS NOT YET COLLECTED IN A SYSTEMATIC AND CONSISTENT WAY

SCHEME MEMBERSHIP PROFILE

Of course, it is impossible to say definitively what the retirement income is of each individual receiving an LGPS benefit without understanding what other pension income and assets they may have. Initial anecdotal and secondary findings suggest that the “typical” scheme member is one that may be in the danger zone of having an inadequate retirement income.³⁷

Most funds surveyed said that they are familiar with the makeup of their membership and have done some work to better understand their profiles, with the vast majority of those surveyed (95%) believing that their organisation understands the characteristics of their beneficiaries/pension members, and six in ten believing that they did so either extremely (13%) or very well (48%).

Chart 16: LGPS and Scheme Members



It was suggested more widely in our workshops that LGPS membership includes a significant proportion of low-income earners and part-time workers; women make up a high proportion of both categories, with the gender pensions gap a persistent problem. There is evidence that suggests that employees who match these profiles may be more likely to be financially vulnerable in retirement.³⁸ However, funds do not currently collect and make publicly available detailed information on its members in a consistent way.

Data collected by GAD in 2019, provided to us from E&W’s SAB, helps to provide an overall understanding on what the membership profile in the England and Wales LGPS looks like:³⁹

³⁷ Please see details on the PLSA’s “Improving Adequacy” work. Available at: <https://www.plsa.co.uk/>

³⁸ (a) PPI (2015) Who is ineligible for automatic enrolment? PPI Briefing Note Number 75. Available at: <https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2015/briefing-note-75-who-is-ineligible-for-automatic-enrolment/>

(b) Prabhakar, R (2022) The Gender Pension Gap. House of Commons Library. Available at: <https://researchbriefings.files.parliament.uk/documents/CBP-9517/CBP-9517.pdf>

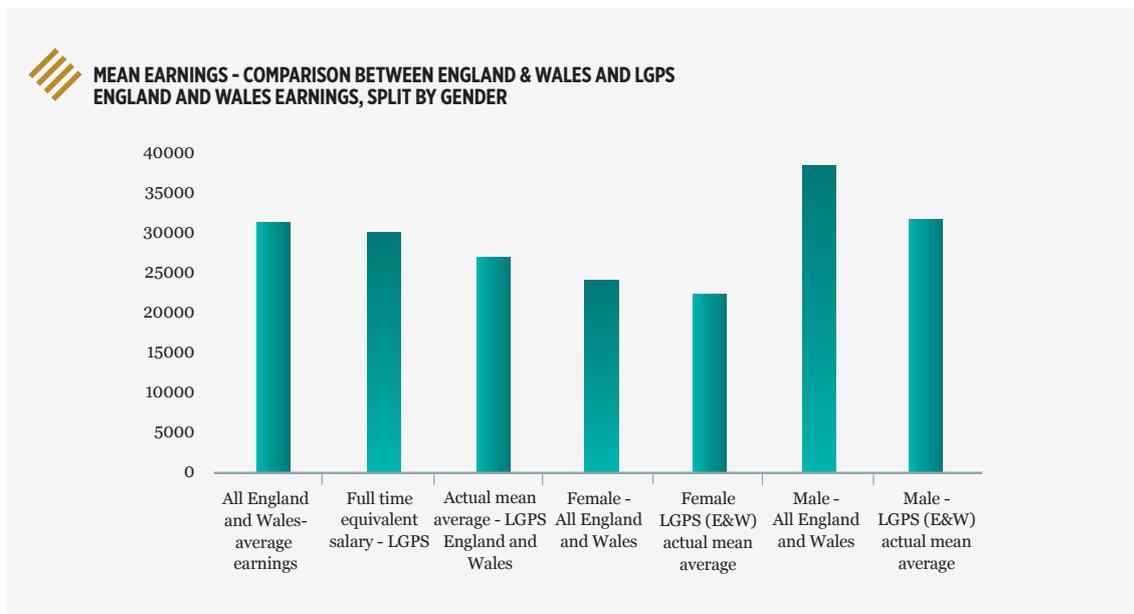
³⁹ Please note that all calculations are from the PLSA, based on GAD data.



- Overall Actual Salary (Average) in the LGPS in E&W: £26,768
- Overall Actual Salary (Average) in the LGPS in E&W for women: £22,262⁴⁰
- Overall Actual Salary (Average) in the LGPS in E&W for men: £31,572

Average full-time salary across England and Wales in 2019 was £31,026, which is 15.9% higher than the E&W LGPS overall average actual salary in 2019 of £26,768.

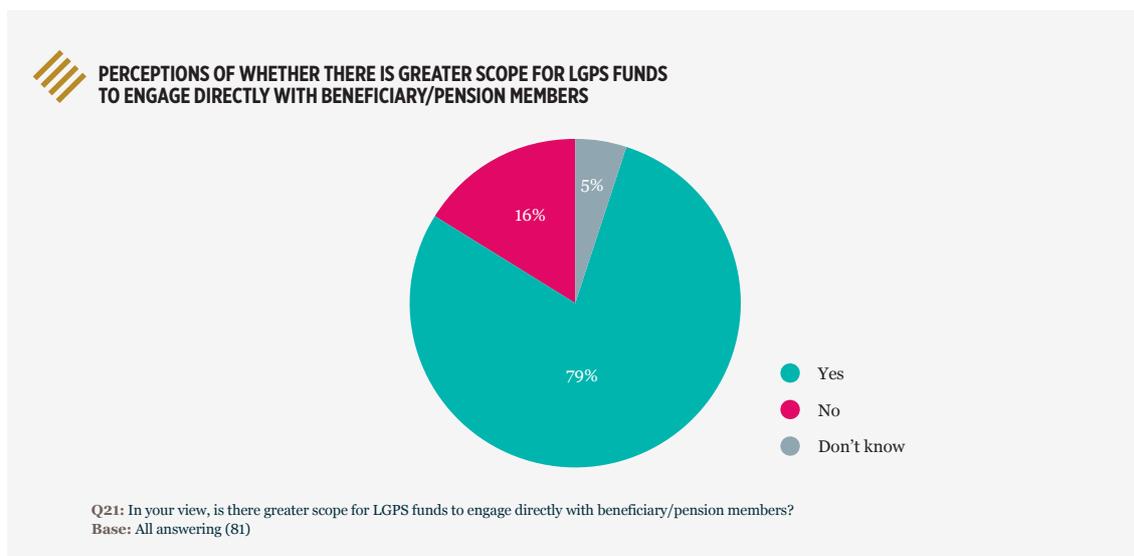
Figure 3: LGPS & Scheme Members – Average Salary



Note: PLSA calculations, 2022

Sources: Derived from GAD data, provided by E&W SAB, and 2019 revised edition *Earnings and hours worked, place of residence by local authority: ASHE Table 8*. The chart does not include NI and Scotland as equivalent data was unavailable.

Chart 17: LGPS and Scheme Members



⁴⁰ Please note that average salaries here have not been adjusted to take account of different working patterns (for example, part time working); they are actual salaries paid.

However, most simultaneously felt there is greater scope for LGPS funds to engage directly with their savers (79%). Those with greater numbers of employers (i.e., 250 employers or more) were more likely to say there is greater scope to engage directly with members (92%) than those with fewer employers (70%). Overall, responses to this issue:

- suggest that there may yet still be gaps between funds’ understanding of the financial needs and expectations of their members and their ability to meet those needs; and
- discussions during workshops and interviews also revealed that there may be appetite to develop more impactful communication with scheme members, particularly around the very complex and confusing regulatory changes coming into effect that may impact them. It may be that the Money and Pensions Service (MaPS) may already have communication systems in place that the LGPS can utilise.

“”

THE JOURNEY IS MORE ENGAGEMENT WITH PEOPLE THROUGHOUT THEIR LIFETIME TRYING TO GET THEM INTERESTED IN PENSIONS. YOU KNOW, WHEN THEY’RE IN THEIR 20S, 30S, 40S, AND SO ON, AND TWEAKING THE MESSAGE [SO] THAT IT’S INTERESTING TO THEM AT THAT AGE.

“”

WE NEED TO COMMUNICATE BETTER AND DIFFERENTLY. WE NEED TO TELL OUR STORY BETTER. AND THAT MIGHT MEAN USING DIFFERENT TOOLS. SO, WE MIGHT NEED TO START COMMUNICATING OUR ANNUAL REPORT, FOR EXAMPLE, THROUGH SOME SORT OF VIDEO PRESENTATION RATHER THAN A 350-PAGE DOCUMENT.

“”

AT THE MOMENT, IN TERMS OF THE FUNDS INTERACTING WITH THE MEMBERSHIP, IT’S VERY LIMITED BECAUSE WE JUST LEAVE IT ALL TO OUTSOURCE... BUT I DON’T THINK THAT THEY QUITE GOT ACCESS TO THE MEMBERS THAT THEY NEED TO, AND THAT’S PERHAPS SOMETHING THAT WE COULD HELP TO THINK ABOUT IN TERMS OF THINKING WHAT ARE THE NEEDS OF THE DIFFERENT COHORTS...



CONCLUSION OR RECOMMENDATION: LGPS AND SCHEME MEMBERS

CONCLUSION

While there is great willing to put savers at the centre of the LGPS agenda, LGPS members' needs may not be well understood fully yet, which makes it more difficult to (a) continue to evolve the scheme to grow with its membership's needs, as well as to (b) secure enough resource for member facing activities.

CONCLUSION OR RECOMMENDATION: LGPS AND SCHEME MEMBERS

CONCLUSION

While the profile of LGPS members varies across and within funds, it is useful to remember that the LGPS acts as a financial safety net for lower paid workers who have contributed to local public service provision.

RECOMMENDATION 2

The PLSA recommends commissioning an independent piece of work to obtain a robust and granular understanding of the LGPS membership profiles, as a first step towards having a greater understanding of their needs, and for LGPS savers' voices to be represented at a more macro level on regulatory, policy and political discussions relating to pensions. This may help to reveal what further official data may need to be collected from central and local government entities in England, Wales, Scotland and Northern Ireland.

WHO SHOULD TAKE THIS FORWARD:

PLSA; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; Funds

RECOMMENDATION 3

The PLSA will seek to understand what communication tools MaPS already employs with savers that could possibly be deployed for the needs of the LGPS. The PLSA should explore what role employee groups, such as trade unions, could play in helping savers understand pensions.

WHO SHOULD TAKE THIS FORWARD:

PLSA, MaPS, Funds

SUMMARY OF UNDERLYING CHALLENGES FOR THEME 3: LGPS AND SCHEME MEMBERS

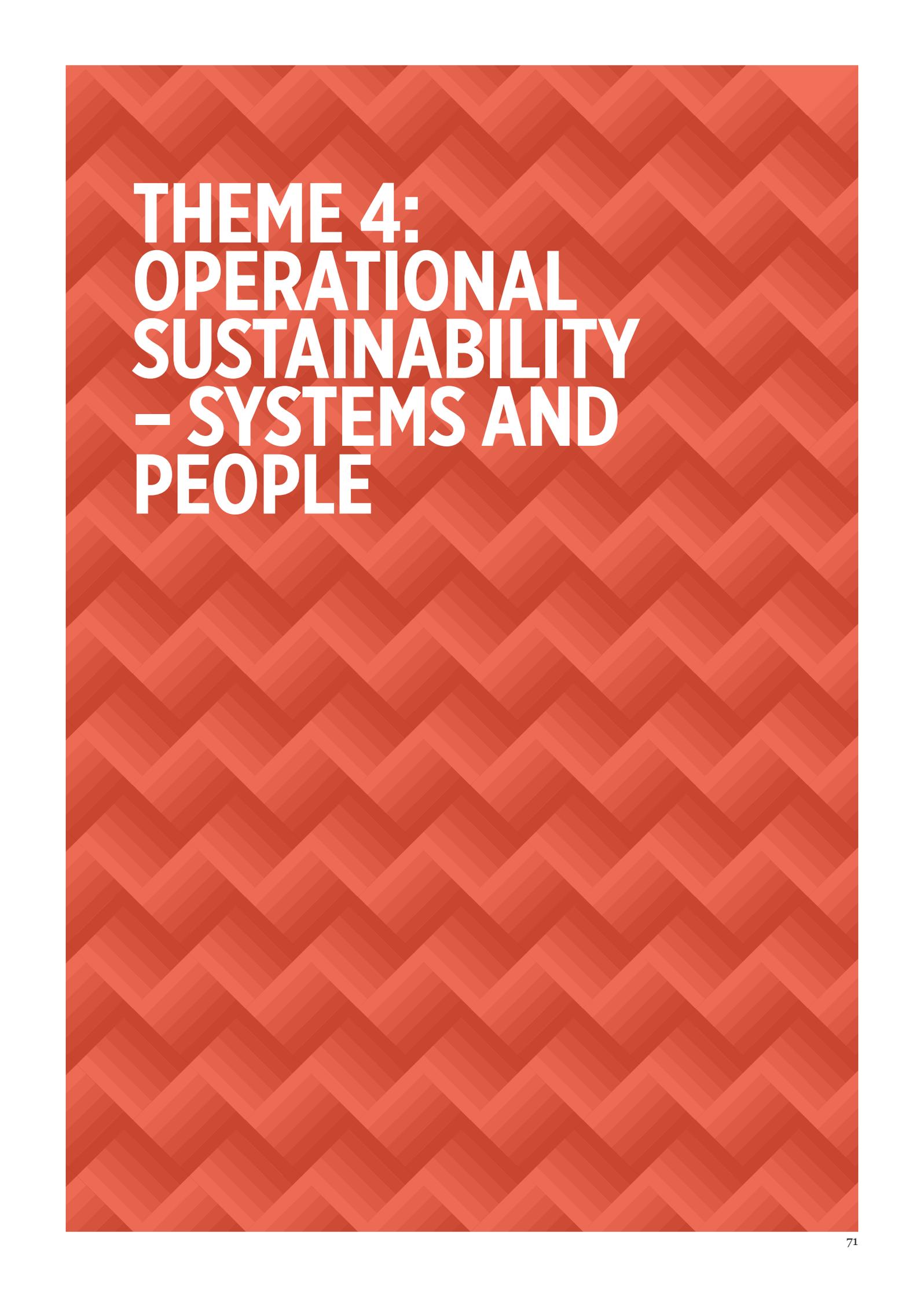
UNDERLYING CHALLENGE 8:

THERE IS CURRENTLY A GAP BETWEEN THE LEVEL AND TYPES OF SERVICE AND COMMUNICATION FUNDS WOULD LIKE TO PROVIDE TO SCHEME MEMBERS, AND WHAT IS CURRENTLY IN EXISTENCE.

UNDERLYING CHALLENGE 9:

DATA ON MEMBERSHIP PROFILE IS NOT YET COLLECTED IN A SYSTEMATIC AND CONSISTENT WAY



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THEME 4: OPERATIONAL SUSTAINABILITY – SYSTEMS AND PEOPLE

KEY INSIGHT 4: OPERATIONAL SUSTAINABILITY – SYSTEMS AND PEOPLE

The LGPS is not consistently well understood by those within local authorities who do not work within the LGPS. This can obstruct appropriate resource allocation and operational investment needed to fund strategic developments and operational requirements of the LGPS.

Investing in operational resilience – assessing resilience, risk/impact and drivers/mitigants – is key to enhanced long-term understanding of sustainability and is something the LGPS should as a whole commit to doing.

OVERALL PICTURE OF OPERATIONAL SUSTAINABILITY

95% said their organisation has made efforts to improve their systems and processes within the last 5 years.

78% felt their organisation has the right systems and processes in place to do their day-to-day job.

88% said they have made efforts to improve recruitment and retention within the last five years.

67% felt they have the right staff in place to carry out their day-to-day job.

45% felt prepared for the Pensions Dashboards.

The previous section explored the administering authorities' relationships to both LGPS employers and LGPS savers, with PLSA's research suggesting there is appetite from LGPS funds to do more for – and to work more closely with – both employers and savers. In order to achieve these goals, there has to be adequate resources (systems and people) in place to continue to contend with growing and complex regulatory compliance and to best serve scheme members.

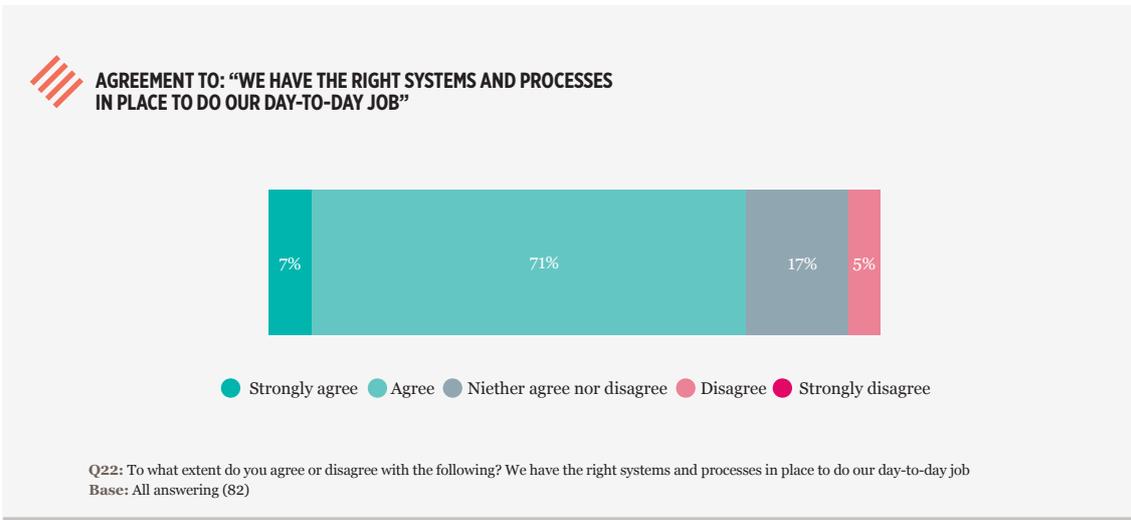
SYSTEMS

Most survey respondents agreed or strongly agreed that they have the right systems and processes in place to do their day-to-day job (78%), with the vast majority saying their organisation has made efforts to improve their systems and processes within the last five years (95%), which are both overwhelmingly positive. Under Theme 1, it was also noted the successes to learn from each other and collaborate, such as the National LGPS Frameworks⁴¹ for procurement, which have reaped rewards that are measurable and impactful.

⁴¹ National LGPS Frameworks, see: <https://www.nationallgpsframeworks.org/>



Chart 18: Operational Sustainability (Systems and People)



WE'RE TRYING TO MAKE MORE AND MORE OF THE ADMINISTRATION DATABASE AND THE FUNCTIONALITY THAT WE CAN GLEAN FROM THAT. WE ARE NOT THERE YET, BUT THAT'S WHAT WE'RE TRYING TO MOVE TO. SO, MOVING TO A HOSTED SOLUTION, INTRODUCING MEMBER SELF-SERVE, AND THEN LOOK TO AUTOMATE AS MANY PROCESSES AS POSSIBLE.



NO, WE'RE INVESTING MORE, IT'S GOT TO BE DONE. AND I MENTIONED THE PENSIONS DASHBOARD, FOR EXAMPLE. ONE OF THE BIG WEAKNESSES AROUND IMPLEMENTING THAT IS THE LACK OF DATA. AND YOU CAN'T DO THAT WITHOUT MODERNISING. IT JUST MEANS THAT WE'VE GOT TO SPEND MONEY TO BRING IT IN. IT IS THE ONLY WAY FORWARD, FRANKLY, TO OFFER THAT SERVICE.



WE'RE VERY LUCKY ACTUALLY, OUR COMMITTEE ARE VERY SUPPORTIVE OF WHAT WE NEED TO DO. THEY DO ASK QUESTIONS....WE DO HAVE TO EXPLAIN IF WE NEED MORE MONEY, WHAT WE NEED IT FOR, [AND EXPLAIN] WHAT THE BENEFITS OF SPENDING THAT MONEY WILL BE....THEY ARE PRETTY AMENABLE, YOU KNOW, IF WE'VE PUT A BUSINESS CASE FORWARD [FOR] THAT.

Among the minority of respondents (5%) who expressed not having the right systems and processes in place, the main reasons cited were: (1) Processes are not responsive to customer needs (three respondents); (2) a lack of cultural drive to invest in change (two respondents), (3) budget constraints (two respondents) and (4) systems are dated (two respondents).

For the minority of respondents that said that they are likely to change their IT supplier I.e. their pensions administration software provider – one in seven (13%) – the two most common reasons cited are cost reduction (46%) and to upgrade existing systems (36%). A quarter also mentioned procurement requirements (27%) and new requirements (27%) as drivers for the likelihood to change IT supplier. **As regulatory requirements continue to become more numerous and complex, it will be important to observe whether current systems can keep up with funds' needs.**

Among the vast majority of respondents not considering changing IT suppliers, the two top reasons cited are “tied to contract with current provider” (57%) and “happy with current provider” (43%). **However, one in seven said that there isn't enough choice of providers (15%). It was also suggested during workshop conversations that the level of innovation of products and services to the LGPS has stalled because there are so few suppliers.**



CONCLUSION OR RECOMMENDATION: OPERATIONAL SUSTAINABILITY (SYSTEMS AND PEOPLE)

CONCLUSION

While introducing more competition between suppliers to induce innovation is outside of anyone's control, it may be that there is an unexplored market for IT suppliers of pensions administration software to help funds' desires to do more for, and to work more closely with, employers and scheme members – as in earlier sections on employers and savers.

RECOMMENDATION 1

The LGPS could ask IT suppliers for pensions administration to provide additional options and solutions to help funds to fulfil their wish to do more for, and to work more closely with, employers and scheme members. The push towards competition should encourage innovation.

It will be important as well to continuously monitor whether existing systems can cope with the ever-changing and increasingly complex regulatory requirements of the LGPS.

WHO SHOULD TAKE THIS FORWARD:

Funds

PEOPLE

UNDERLYING CHALLENGE 10: LGPS FUNDS' STAFF RETENTION ISSUES REMAIN PREVALENT



WHAT WE'VE TRIED TO DO IN MORE RECENT YEARS IS GROWING OUR OWN, SO GETTING PEOPLE IN AT GRADE 4 AND TRAINING THEM UP AND THEN JUST TRYING TO ENCOURAGE THEM TO STAY. WE'VE DONE THINGS LIKE INTRODUCED CAREER GRADES AND LINKED THAT TO PROFESSIONAL TRAINING, SO THAT WE CAN TRY AND GIVE THEM A CAREER PATH RATHER THAN LOSE PEOPLE.

The PLSA carried out a comprehensive study of Talent Management issues in 2018.⁴² While this project actively sought to avoid replicating any element of that work, the issues of staff recruitment, retention and resourcing were raised by some participants of this research project, so it is important to revisit these themes again here.

Overall

- Two-thirds of survey respondents believed that they had the right staff in place to carry out their day-to-day job (67%), as seen in Chart 19.
- Notably, nearly nine in ten (88%) said they have made efforts to improve recruitment and retention within the last five years.
 - All respondents from larger funds reported efforts to improve recruitment and retention within the last five years compared to 79% among medium sized funds and 70% among respondents from smaller funds – which are of course all markers showcasing just how important talent management issues are to funds.

One project participant reported that their recruitment strategy – which has worked for them – for the last fifteen years has been to hire school leavers, train them up, and to continue to promote them. They noted that sixteen of their current 80 staff members joined from school on a modern apprenticeship scheme.

CONCLUSION OR RECOMMENDATION: OPERATIONAL SUSTAINABILITY (SYSTEMS AND PEOPLE)

RECOMMENDATION 2

Given so many funds have reported increasing efforts to improve recruitment and retention in the last five years, the PLSA recommends a “best practice” case studies project be undertaken to share what has worked and what might not have worked as well.

WHO SHOULD TAKE THIS FORWARD:

Funds, PLSA



I THINK THEY COULDN'T AFFORD INVESTMENT EMPLOYEES BECAUSE THEY COULDN'T PAY THE FINANCIAL PEOPLE WHAT THEY WOULD NEED TO GET TO ATTRACT THEM.

42 PLSA (2018) Talent Management Guide in the LGPS: The Three Rs (Recruitment, Retention and Resourcing)



IT IS VERY DIFFICULT TO FIND PEOPLE. YOU TRAIN YOUR OWN AND THEN THEY CAN LEAVE AND GO TO THE PRIVATE SECTOR FOR A LOT MORE MONEY, SO RETENTION IS ALSO A CHALLENGE.

However, Chart 19 also shows that over one in five (22%) of survey respondents did not believe they have the right staff in place to carry out their day-to-day job. Among those who said they didn't have the right staff in place, the main reasons cited were the following (see **Chart 20**), which were sentiments also expressed by participants to the workshops in 2021:

- Difficulty in recruiting staff (88%);
- Over half (59%) responded that the required skills for roles have changed;
- Almost half (47%) also mentioned low pay and rewards;
- A third also pointed to their difficulty with staff retention (35%);
- One in five (18%) cited insufficient budget; and
- One in five (18%) reported local competition with other employers.

CONCLUSION OR RECOMMENDATION: OPERATIONAL SUSTAINABILITY (SYSTEMS AND PEOPLE)

CONCLUSION

Some funds are having difficulty recruiting people with the “new skills” that are now required (i.e., digital skills, knowledge of regulation, cyber security).

RECOMMENDATION 3

The PLSA recommends that the LGPS explores establishing a central support network that could help with recruitment across the country.

WHO SHOULD TAKE THIS FORWARD:

Funds

Chart 19: Operational Sustainability (Systems and People)

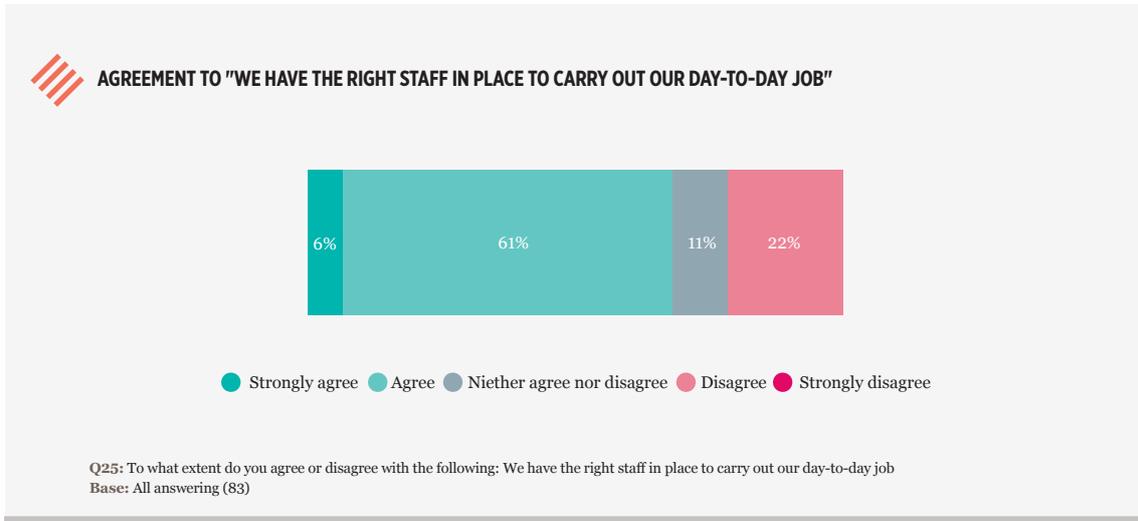
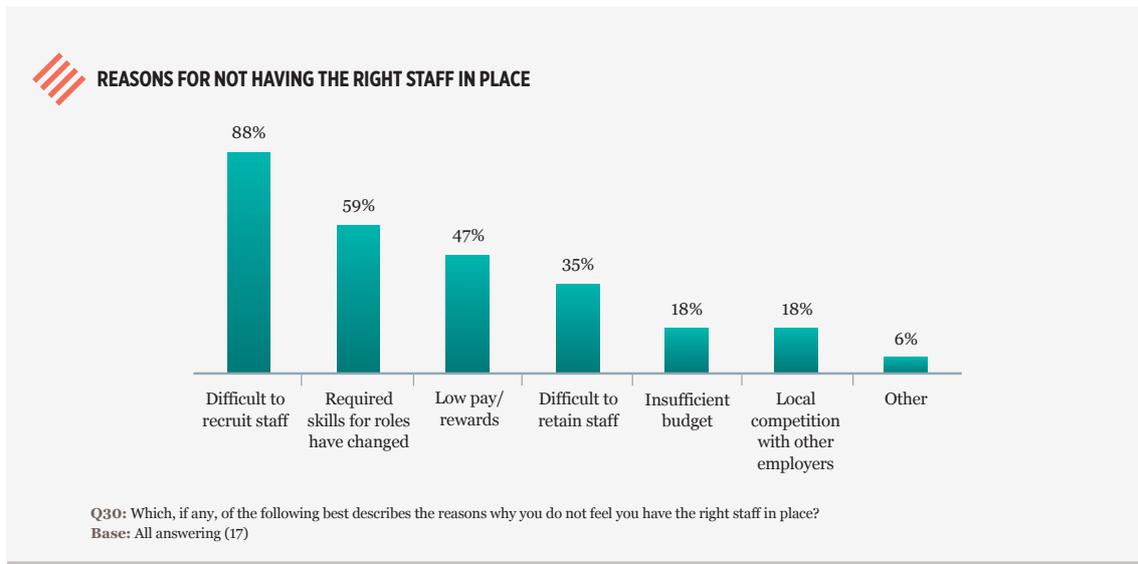


Chart 20: Operational Sustainability (Systems and People)



Among respondents who said they did not have the right staff in place, they were asked what the main reasons were for their staff exits over the last three years. The following were cited as the known motivators (see Chart 21):

- the desire for career progression (56%);
- better pay in the private sector (50%); and
- the increasing demands/complexity of working for the LGPS (19%).



UNDERLYING CHALLENGE 11:

COMPETITION FOR TALENT REMAINS FIERCE OVER PAY – A SITUATION MADE WORSE BY EFFECTS OF THE PANDEMIC ON THE JOB MARKET OFFERINGS



POST PANDEMIC, IT'S HARDER TO RECRUIT AT ANYTHING, EVEN AT THE LOWER LEVEL. EVERYBODY IS FIGHTING FOR THE SAME RESOURCE.



WE'RE ABOUT TO DO A PIECE OF WORK OVER THE NEXT 12 MONTHS TO LOOK AT RECRUITMENT AND RETENTION. ULTIMATELY YOU NEED TO START BY THINKING ABOUT WHO YOU ARE COMPETING WITH FOR STAFF.



THE SALARY GRADING DOESN'T ALWAYS REFLECT THE RESPONSIBILITIES.

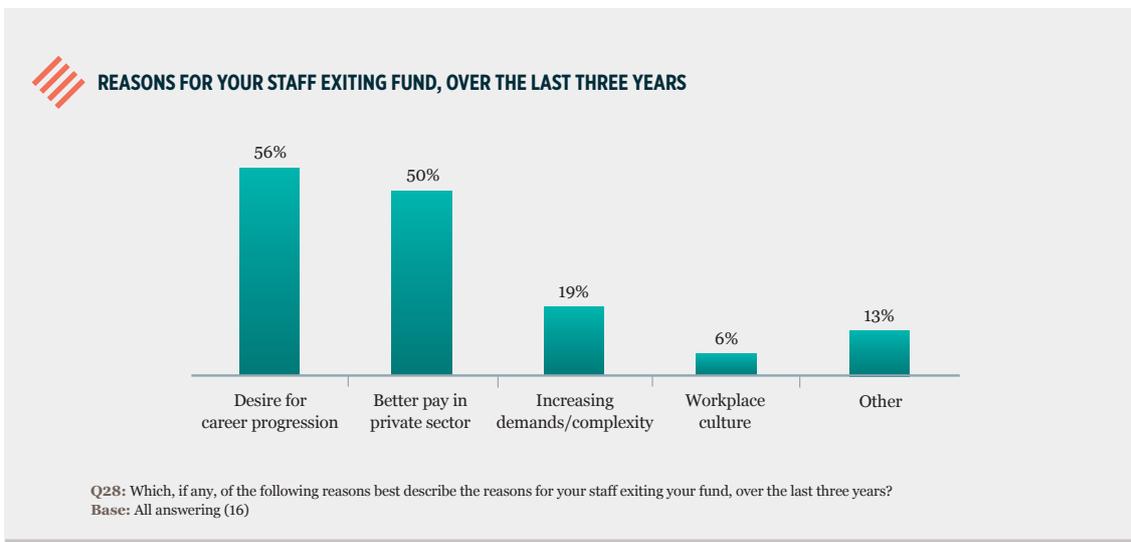
There are reports of difficulties in recruiting for specialised skills needed. This is the case in recruiting for finance and investment roles, including accounting, and even more so on administrative roles. A project participant reported to the PLSA that their fund had lost to the private sector its Head of Communications and their Head of Employers Services. There is a concern that the private sector has “deeper pockets” than the LGPS and will continue to attract LGPS staff away.

While not specifically asked about in the survey, there are reports that the increase of homeworking and flexible working hours due to the global pandemic has driven the rise in recruitment and retention issues from senior to junior posts. For instance, some employees can now choose to live in the Northeast but work for a company based in London that pays better. The pandemic has changed the environment in which employers are now competing for talent.

Wider Cultural Shifts

Separately, while only 6% of respondents who said they didn't have the right staff in place (see **Chart 21**) cited workplace culture as the reason for staff exiting, this might be something to monitor going forward and to unpack in any future talent management work; a project participant noted that there is a wider cultural shift occurring, where some new hires are less accepting of a sense of “just getting on with it”, which adds to existing retention challenges.

Chart 21: Operational Sustainability (Systems and People)



UNDERLYING CHALLENGE 12:
COMPARABILITY OF ROLES WITHIN THE LOCAL AUTHORITY IS DIFFICULT, MAKING IT HARD FOR ADMINISTERING AUTHORITIES TO ARGUE FOR COMPETITIVE WAGES TO KEEP PACE WITH PRIVATE SECTOR PAY IN THE BATTLE FOR TALENT

“”

WE NEED TO GET THE MESSAGE OUT THERE THAT YOU NEED TO RECRUIT, AND PAY A BIT MORE, BUT YOU’LL STILL TEND TO BE USING COUNCIL PROCESSES TO DO IT, AND IT CAN BE HELLISH, DIFFICULT. WE’VE GOT LOTS AND LOTS OF MONEY, WHY WOULDN’T WE JUST HIRE STAFF.

“”

THE COUNCIL DOESN’T USE RECRUITMENT CONSULTANTS AND THINGS LIKE THAT SO WE CAN’T GET ACCESS TO ANY PENSION SPECIALISTS, AS WELL AS YOU WOULD IN THE PRIVATE SECTOR.



WITH MORE EXPERIENCED STAFF WE COULD DELIVER COST SAVINGS AND BETTER PERFORMANCE.

Chart 20 indicates that of those who said they didn't have the right staff in place, 47% of respondents linked this to low pay and rewards. In the PLSA's 2018 Talent Management Guide, one of the difficulties identified in securing higher pay for staff included the following:

“As there is limited comparability in roles between LGPS funds and the wider local authority, HR is often not fully aware of the specialised skills required to perform well within pension administration, finance and investment roles. As a consequence, roles within pensions teams are often assigned to pay grades lower than what they could or should be.”⁴³

Discussions from the workshops continue to support this view; fund representatives gave multiple examples of how pay and rewards were aligned with those for comparably more less specialist roles in other local authority non-pensions functions. Talent Management – recruitment, retention and resourcing – is clearly still a very important issue for the LGPS, one without yet a simple solution to fix the underlying challenges.

UNDERLYING CHALLENGE 13: IMPACTS ON TALENT MANAGEMENT FROM INCREASING REGULATORY COMPLEXITY

Survey respondents provided us explanations such as the following:



TRYING TO COVER THE BREADTH OF EVERYTHING THAT'S GOING ON AND KNOWING IT INSIDE OUT, SO ARE ABLE TO ANSWER QUESTIONS FROM ALL THOSE AREAS. I THINK IT'S JUST GETTING TOO BIG. IT'S TOO MANY THINGS TO KNOW FOR ANYONE, IN ANY DETAIL.



GOVERNMENT REGULATION, JUST THE SHEER VOLUME OF KEEPING UP WITH THAT LOT, NEEDS AN ADDITIONAL SKILL, WHICH INCIDENTALLY IS IN SHORT SUPPLY.

⁴³ PLSA (2018) Talent Management Guide in the LGPS: The Three Rs (Recruitment, Retention and Resourcing), p. 11



STAFF RECRUITMENT, RETENTION, PROFESSIONAL DEVELOPMENT AND RECOGNITION IS A PROBLEM – RECOGNISING AND REWARDING THE SOPHISTICATED AND DIVERSE RANGE OF SPECIALIST / TECHNICAL AND SOFT SKILLS REQUIRED WITHIN THE LGPS.



IT FEELS LIKE THE EXPERTISE IS THERE, BUT STABILITY IS NEEDED FOR THE INDUSTRY AS A WHOLE TO PROVIDE A BETTER EXPERIENCE FOR MEMBERS AND EMPLOYERS.

CONCLUSION OR RECOMMENDATION: OPERATIONAL SUSTAINABILITY (SYSTEMS AND PEOPLE)

CONCLUSION

While leaving for career progression or better pay in the private sector are familiar reasons for exiting, our research identified “increasing demands/complexity” of what is required to do one’s job. This supports what we heard in the workshops, where throughout the week-long discussions, we heard variations of the same anecdote – that funds were losing staff because of the steeply rising complexities in current or upcoming regulation, including the implementation of the McCloud Judgment.

RECOMMENDATION 4

We recommend that the PLSA takes this finding – that staff are resigning due to concerns over regulatory complexities – to DLUHC, Scottish Government, Northern Ireland’s Department for Communities, TPR, and FCA to use in wider discussions about regulatory complexity and the negative impacts it has on funds, to ask them to consider more joined-up policy and regulatory work, and to streamline compliance issues where possible. It may be necessary to acquire new statistics on this to help make the case to decision-makers.

WHO SHOULD TAKE THIS FORWARD:

PLSA; Funds; DLUHC; Scottish Government; Northern Ireland DfC; TPR; FCA



“”

THIS IS NOT A JOB THAT YOU CAN DO PART-TIME ALONGSIDE RUNNING THE COUNCILS TREASURY MANAGEMENT FUNCTION, WHICH USED TO BE THE CASE ALMOST UNIVERSALLY. THE TECHNICAL KNOWLEDGE AND SPECIALISM THAT YOU NEED IS EVER MORE COMPLICATED. WE WILL INCREASINGLY SEE PEOPLE COMING IN AND MAKING THEIR ENTIRE CAREER IN LGPS.

Participants in the 2021 workshops noted that increasing numbers of staff cited – as reasons for their resignations – their concerns with the impending complex challenges of implementing the McCloud Judgment, and that “they didn’t want to be here when it happened”.

RECRUITMENT & RETENTION: REBRANDING THE LGPS

“”

MY VIEW IS THAT YOU NEED TO GET INTO THE SCHOOLS BECAUSE NOBODY THINKS THEY WANT TO BE AN OFFICE PERSON. I DON’T KNOW HOW PEOPLE DRIFT INTO THE LGPS OR DRIFT INTO PENSIONS. WE COULD DO A LOT MORE BY SAYING IT IS ACTUALLY A VERY REWARDING CAREER.

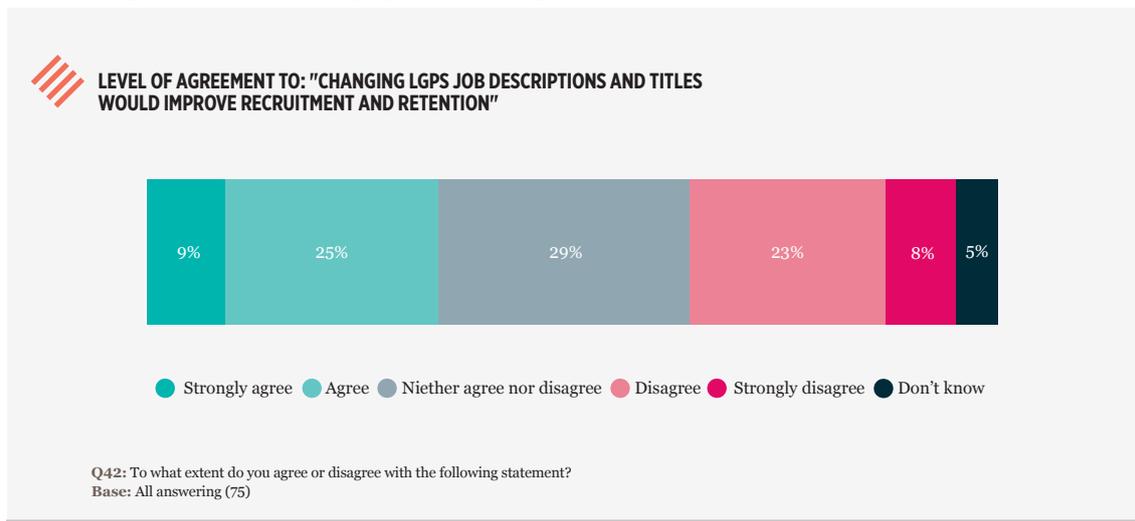
During the workshop discussions around the “supply side” (recruitment and resourcing) of talent management, a suggestion was raised – which others agreed with – on the possibility of doing an official “rebranding” of the benefits of working for the LGPS, as well as having a standard guidance for more consistent understanding of roles and resourcing requirements, based on the increasing regulatory expectations and ongoing scheme growth. These as an aggregate may help with recruitment and resourcing overall. For example, one survey respondent told us:

“”

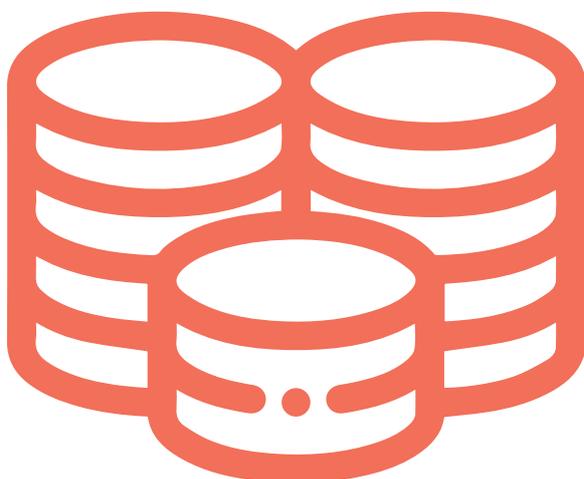
WE ARE INCREASINGLY GROWING OUR OWN STAFF RESOURCE AS WE FIND IT VERY DIFFICULT TO RECRUIT EXPERIENCED PENSIONS STAFF.

When asked this in the PLSA survey, there was no clear direction on what the LGPS would agree to do on this issue of changing job descriptions and titles. One in three felt that changing LGPS job descriptions and titles would improve recruitment (34%). A further third (29%) were neutral on the matter. A similar proportion felt it will make no difference (31%).

Chart 22: Operational Sustainability (Systems and People)



Participants in the 2021 workshops noted that increasing numbers of staff cited – as reasons for their resignations – their concerns with the impending complex challenges of implementing the McCloud Judgment, and that “they didn’t want to be here when it happened”.





CONCLUSION OR RECOMMENDATION: OPERATIONAL SUSTAINABILITY (SYSTEMS AND PEOPLE)

CONCLUSION

A nation-wide LGPS “rebrand”/campaign may be necessary once the above recommendations are built up (reframing job descriptions and job titles; having more consistent job descriptions and job titles, with the goal of having a greater understanding of roles and resourcing requirements), to encourage more applicants to the LGPS at all levels, and to fill knowledge gaps within administering authorities on the important service LGPS pension teams provide.

LGPS employers could also help overall scheme recruitment and retention by helping to explain through their HR departments the benefits of an LGPS pension.

RECOMMENDATION 5

The PLSA also recommends that some of the suggestions from its talent management guide be revisited, including, but not limited to the following:

- There may be a need to create comparable national roles and pay bands across the LGPS funds, so that funds are able to recruit more efficiently and appropriately for the skills gaps on their teams.
- Reframing the language used to describe a career in pensions may help to attract a broader group of candidates. For instance, describing a job within an organisation that manages a multibillion-pound fund might be more appealing to a larger range of individuals for certain posts. Additionally, the scale of LGPS membership in terms of the variety of employers and the type of work they do across a range of sectors should be explicitly championed in all job descriptions, to showcase the tapestry of roles and skills that make up the LGPS.
- There is limited comparability in roles between LGPS funds and the wider administering authority. As such, HR is often not fully aware of the specialised skills required to perform well within pension administration, finance, and investment roles. It may be worth exploring whether common job roles or common job descriptions across the LGPS funds might assist in pay challenges as they relate to recruitment and retention.

As many LGPS funds currently have difficulty competing on pay, it is crucial to emphasise the quality of pension provision and positive working environment they can offer. It is important to explain to potential applicants the flexibility, collegiate atmosphere and industry career pathways that are available to those who join LGPS funds.

WHO SHOULD TAKE THIS FORWARD:

England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; LGA; WLGA; COSLA; Funds; Administering Authorities

ACCESS TO RESOURCES

UNDERLYING CHALLENGE 14: SOME LGPS FUNDS HAVE DIFFICULTY SECURING INTERNAL RESOURCES

Our survey and qualitative results suggest however that LGPS funds' ability to access resources when needed is still very mixed and indeed difficult for some. "Insufficient budget" was flagged by some funds in the previous section on "People", as one of the reasons why funds do not feel that they had the right staff in place (please see **Chart 20**).

- A third of survey respondents told us that their funds' or pension teams' ability to secure resources has improved over the past five years (31%), while one in five said it has become worse (22%). Two in five said that it had remained unchanged (42%).
- Respondents from larger funds were more likely to say their ability to secure resources has improved (45%) than those from smaller funds (13%). Smaller funds were more likely to say it has stayed the same (60%). It may be that smaller funds do not have the capacity or existing resource that larger funds have, to lobby for their own needs to their administering authority.

CONCLUSION OR RECOMMENDATION: OPERATIONAL SUSTAINABILITY (SYSTEMS AND PEOPLE)

CONCLUSION

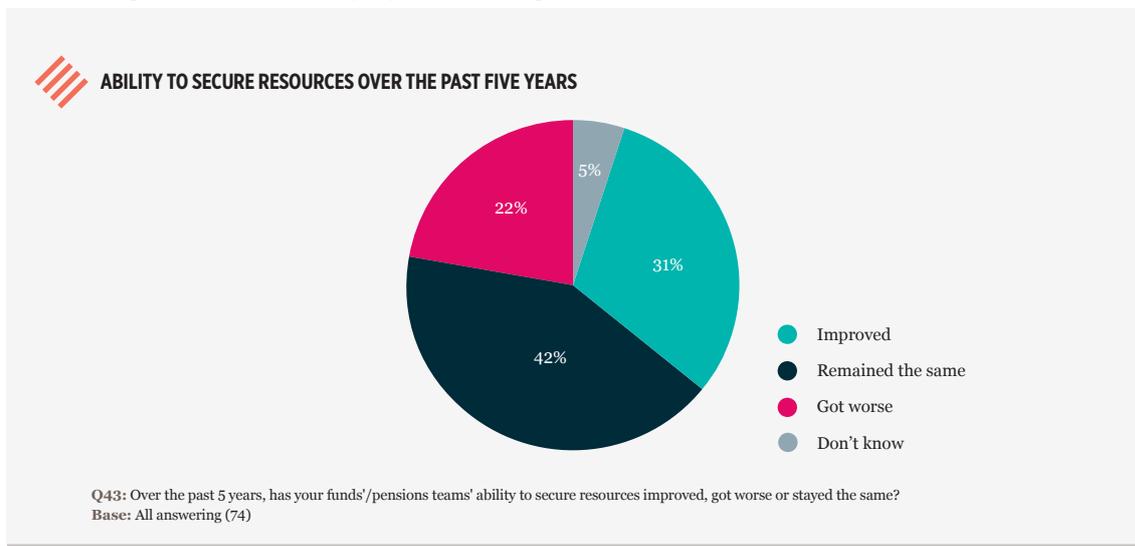
More broadly, the trend towards larger funds being able to secure more resource than smaller ones suggests a potential difference in capacity emerging between funds of different sizes, a trend that should be monitored over time to ensure that fund size is not a hindrance to obtaining the systems and people needed.

However, it's important to note that the size of a fund doesn't necessarily guarantee greater effectiveness in investment or operational sustainability.

Successful and consistent engagement with operational sustainability is tied to issues discussed in Theme 1, where heavy regulatory burden, conflicting guidance on regulation and an unclear hierarchy of regulatory authority, negatively impact operational effectiveness.



Chart 23: Operational Sustainability (Systems and People)



Indeed, it is a widely known and a commonly held view – one which was prevalent in the qualitative research, as well as in the PLSA’s 2018 Talent Management Guide work – that administering authorities do not fully understand the operational needs of the LGPS, including the types of skills and experience needed to fulfil key pensions roles. This knowledge gap will likely play a part in determining how successful LGPS funds are able to secure the resources they need and want, an area reviewed by the England and Wales SAB’s Good Governance project, which includes a recommendation indicating the significance for the administering authorities to ensure their senior LGPS officers and their pensions committees are satisfied that there are sufficient resources for operational sustainability.⁴⁴

CONCLUSION OR RECOMMENDATION: OPERATIONAL SUSTAINABILITY (SYSTEMS AND PEOPLE)

CONCLUSION

- Smaller funds may not have the same capacity or existing resource to lobby for their own needs to their administering authority; and
- Administering authorities may not be fully aware of the drivers behind the requests for additional resource, in part due to a knowledge gap in understanding pensions roles within the LGPS (investment, administrative, operational, etc).

⁴⁴ SAB Secretariat (2021). Letter to Luke Hall MP. Available at: https://www.lgpsboard.org/images/Other/Annex_to_Good_Governance_letter_110221.pdf

RECOMMENDATION 6

The LGPS could have a collective, UK-wide outreach campaign to help bridge knowledge gaps within administering authorities, to provide a greater understanding of the specialised pensions skills needed within funds. A comparison to equivalent roles in the private sector pay may be helpful. Please see Recommendation 5 in Theme 4: Operational Sustainability.

- It will be important to present a universally accepted list of key roles and job descriptions needed.
- It may also be important to commission a piece of work that better understands what requests are being turned down and why, as well as to identify what other competing local authority needs there might be happening at the same time.

WHO TAKES THIS FORWARD:

England & Wales, Scottish and Northern Ireland Scheme Advisory Boards; LGA; WLGA; COSLA; Funds; Administering Authorities; HR departments

CONCLUSION OR RECOMMENDATION: OPERATIONAL SUSTAINABILITY (SYSTEMS AND PEOPLE)

RECOMMENDATION 7

Investing in operational resilience – assessing resilience, risk/impact and drivers/mitigants – is key to enhanced long-term understanding of sustainability of the LGPS. The PLSA recommends that funds take this forward to establish and encourage best practice. Establishing a team that specifically looks at operational resilience, that would factor in incoming regulatory requirements such as implementing McCloud, or for projects such as Dashboards, could be one way to do this.

WHO SHOULD TAKE THIS FORWARD:

Funds; England & Wales, Scottish and Northern Ireland Scheme Advisory Boards

THE DASHBOARDS PROGRAMME

The Pensions Dashboards Programme is a significant policy and operational project aimed at improving savers’ visibility and engagement with their pensions. At the time of publication, the first staged onboarding of pensions data into dashboards is due to begin in 2023.⁴⁵ When asked in the PLSA survey about a sense of “level of preparedness for the Pensions Dashboard”, the response was mixed: 45% felt prepared and 42% felt not very or not at all prepared, as seen in Chart 24.

⁴⁵ Pensions Dashboards Programme: Programme Timeline. Please see: <https://www.pensionsdashboardsprogramme.org.uk/programme-timeline/>



When asked what actions have been taken thus far on Dashboards, as seen in **Chart 25**:

- Two in five survey respondents identified that they had not yet carried out any work to prepare for the Pensions Dashboards (36%).
- At least some of these delays could be tactical, as one in five said they planned to consider the operational risks that might arise once the Pensions Dashboards were up and running (21%).
- There also appeared to be some lack of joined-up internal awareness of what the status of Dashboards readiness is, as one in five were unaware of the actions their funds have taken thus far (21%).
- A similar proportion had considered how preparing for the Dashboards will affect their day-to-day operations (19%), while one in ten had set up **a change board or project team to respond to regulatory changes** such as Dashboards and the implementation of the McCloud Judgment (10%).

Survey respondents also added comments such as:



WE ARE CURRENTLY JUST FACT FINDING AND LEARNING THE NEW REQUIREMENTS.



OUR DATA IS VERY CLEAN; WE ARE HOPING THAT THERE WILL BE MINIMUM IMPACT TO THE SECTION IF OUR PENSION PROVIDERS PROVIDE THE SERVICE.



WE HAVE ONGOING DATA CLEANSE PROJECTS WHICH WILL HELP EVENTUAL DASHBOARDS ONBOARDING.

In the workshops, participants acknowledged the importance and potentially powerful benefits of dashboards to savers, but also noted that without specific instructions and guidance from Government, **funds felt unclear on how to proceed to get “dashboards ready”**. Additionally, funds felt that until they were given further instructions, the increasing regulatory burden on the LGPS – including implementing the McCloud Judgment – the dashboards would not yet climb up the priority list for them, given the limited resources available to tackle a very long list of compliance list and responsibilities to fulfil to continue to keep the LGPS efficiently operational. It will be important to monitor the Dashboards Projects’ impact on both the LGPS funds and its savers.

“”

WE’RE HEAVILY RELYING ON SOFTWARE PROVIDERS, AND WE KNOW NOW THAT WE AREN’T GOING TO BE ABLE TO DO IT OURSELVES, SO THAT’S ONE REASON THAT WE’RE NOT PREPARED. IN FAIRNESS, I THINK THERE IS STILL A LOT OF GUIDANCE REQUIRED. WE’RE NOT BEING ADVISED ON THE DEFINITIVE DATE AND THE SPECIFICATIONS, SO THAT’S WHAT’S MAKING ME FEEL UNPREPARED.

“”

I THINK IT’S A GOOD THING. I THINK WE’RE PROBABLY ALL SUPPORTIVE OF IT, BUT IT’S JUST ALL THE COMMS ARE ALL ABOUT THE TECHNICAL ASPECTS OF IT.

“”

WE NEED SOMEONE TO CLARIFY EXACTLY WHAT WE’RE SUPPOSED TO DO BY WHEN THIS WOULD BE HELPFUL. EXACTLY WHAT INFORMATION ARE WE SUPPOSED TO PROVIDE? EXACTLY HOW WILL IT BE SUPPLIED? IT STILL FEELS A BIT THEORETICAL TO ME AS TO WHAT IT MEANS FOR US AND YET IT DOESN’T FEEL FAR AWAY AT THE SAME TIME.

Chart 24: Operational Sustainability (Systems and People)

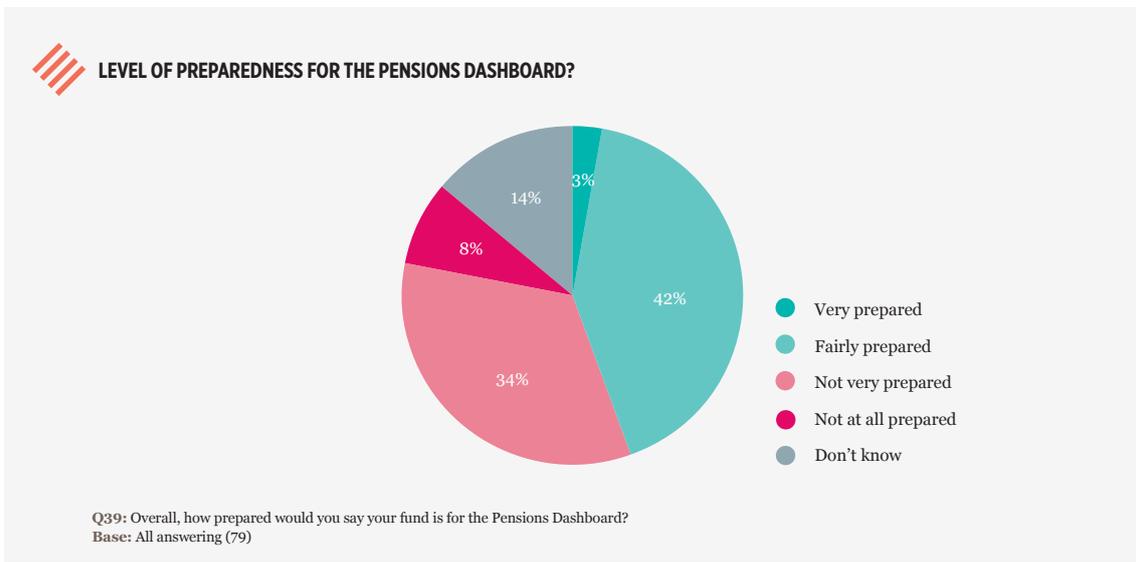
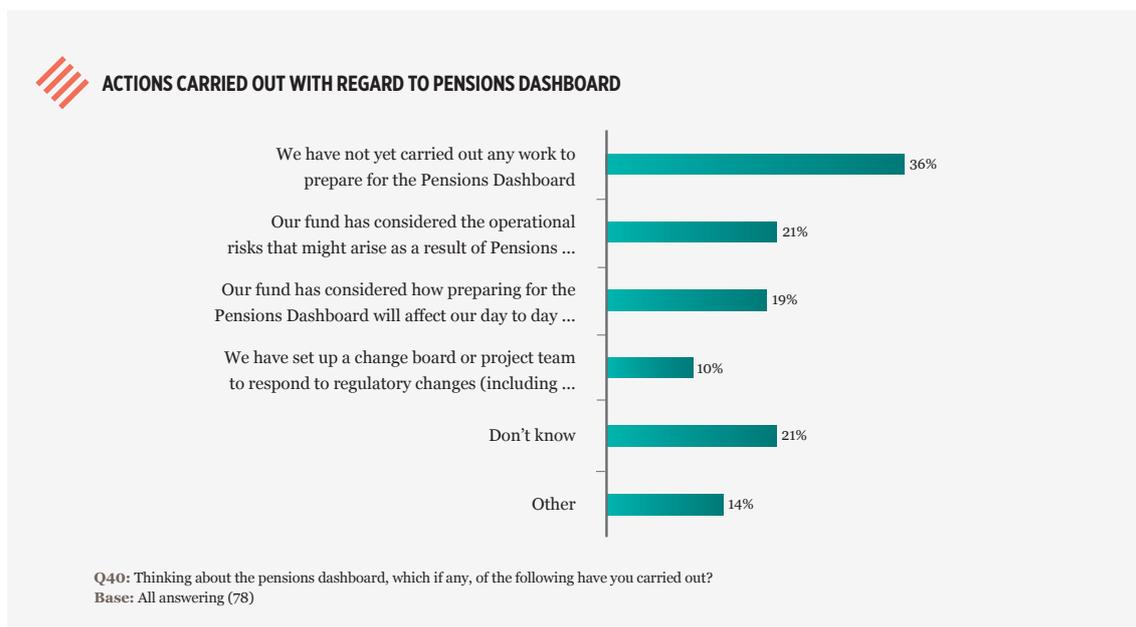




Chart 25: Operational Sustainability (Systems and People)



CONCLUSION OR RECOMMENDATION: OPERATIONAL SUSTAINABILITY (SYSTEMS AND PEOPLE)

RECOMMENDATION 8

As some funds have difficulties consistently securing necessary resources, a clearer articulation from Government of the requirements and a longer run-up to milestones – sooner than what has been the case with the Dashboards Project, for example – would aid funds in their planning and development of business cases to secure the necessary resources at local level.

WHO SHOULD TAKE THIS FORWARD:

DLUHC; Scottish Government; Northern Ireland’s DfC; DWP; HMT; HMRC; FCA; TPR

SUMMARY OF UNDERLYING CHALLENGES FOR THEME 4: OPERATIONAL SUSTAINABILITY – SYSTEMS AND PEOPLE

UNDERLYING ISSUE 10:

LGPS FUNDS' STAFF RETENTION ISSUES REMAIN PREVALENT

UNDERLYING ISSUE 11:

COMPETITION FOR TALENT REMAINS FIERCE OVER PAY – A SITUATION MADE WORSE BY EFFECTS OF THE PANDEMIC ON THE JOB MARKET OFFERINGS

UNDERLYING CHALLENGE 12:

COMPARABILITY OF ROLES WITHIN THE LOCAL AUTHORITY IS DIFFICULT, MAKING IT HARD FOR ADMINISTERING AUTHORITIES TO ARGUE FOR COMPETITIVE WAGES TO KEEP PACE WITH PRIVATE SECTOR PAY IN THE BATTLE FOR TALENT

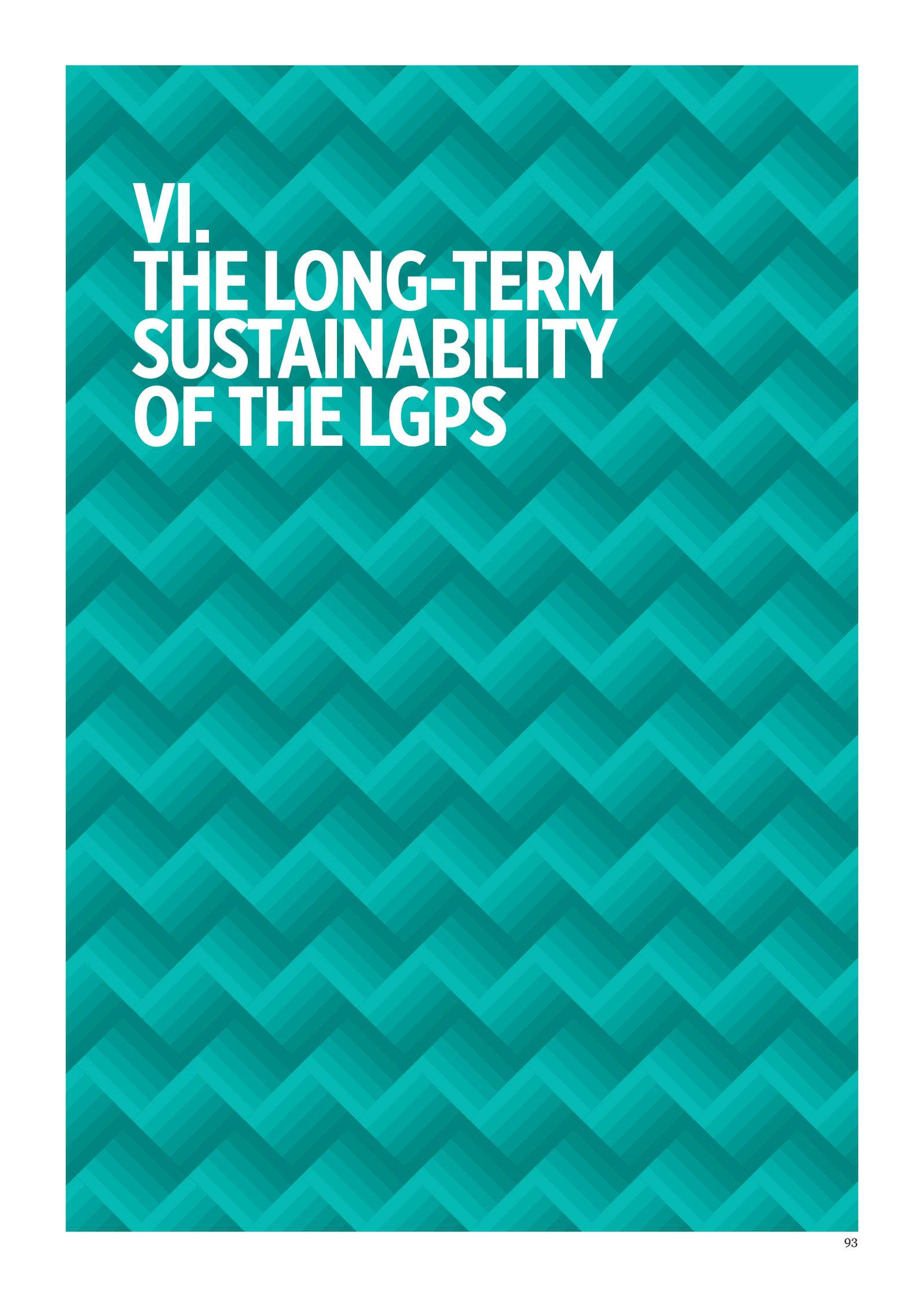
UNDERLYING CHALLENGE 13:

IMPACTS ON TALENT MANAGEMENT FROM INCREASING REGULATORY COMPLEXITY

UNDERLYING ISSUE 14:

SOME LGPS FUNDS HAVE DIFFICULTY SECURING INTERNAL RESOURCES



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VI. THE LONG-TERM SUSTAINABILITY OF THE LGPS

KEY INSIGHT 5: THE LONG-TERM SUSTAINABILITY OF THE LGPS

LGPS cash flow overall is secure, with robust investment strategies embedded across the scheme, but this is something to monitor as funds mature.

Politicisation of the scheme is a potential risk, given a variety of external expectations, as seen through recent government initiatives and wider cultural and political pressure for scheme assets to serve more than the purpose of pension provision.

There is an opportunity to review the **LGPS's internal identity**, to better align day-to-day operational objectives with long-term strategic objectives, which could include doing more for savers and doing more to help employers understand their role within the scheme. This review could also create an opportunity to champion the scheme as an important and compelling place to work by highlighting its purpose, scale, and career opportunities.

Regulatory complexity is a risk to operational sustainability as well. With constrained resources, it will remain a challenge to continuously monitor, interpret, implement, and comply with regulatory changes.

“”

I THINK WE SOMETIMES LOSE SIGHT OF THE VALUE OF THE FUND. THE LGPS IS VERY, VERY VALUABLE.... THE THING IS, [THE VALUE OF THE FUND] ISN'T RECOGNISED. IT DOES NEED A HIGHER PROFILE.

—

“”

THE LGPS IS DIFFERENT AND SPECIAL, BUT IT DOESN'T ALWAYS GET THAT KIND OF RECOGNITION.

“”

I'M GENUINELY NOT PRECIOUS ABOUT [WHO OVERSEES THE LGPS], AS LONG AS IT GETS THE TIME AND ATTENTION IT DESERVES.

—

In this concluding section, we draw together the understanding of sustainability to encompass not just financial factors, but also the implications of external and internal expectations on operational sustainability, which have been explored throughout the report.



CONCLUSION OR RECOMMENDATION: THE LONG-TERM SUSTAINABILITY OF THE LGPS

CONCLUSION

Financial Sustainability

The long-term sustainability of the LGPS looks secure. While financial strength is always only a snapshot of a point in time, subject to change by exogenous shocks to financial and political systems, LGPS cash flow overall is positive, with robust investment strategies embedded across the scheme. However, this should not be taken for granted. An advisory firm in Q1 2021 suggested that the scheme could fall into aggregate negative cashflow by 2024, based on data released by DLUHC.⁴⁶ Over 30 funds had negative cashflow, which could be linked to the dual trends of rising costs – which rose 60% over a period of five years – as well as to a fall in investment income from listed bonds and equities.⁴⁷

Reviewing the quantitative and qualitative data, the long-term sustainability of the LGPS looks secure. However, as in all other successful operations, continued vigilance over a number of factors and issues will be required. These factors are explored in this closing section, with conclusions drawn from insights (see Figure 3) from all four inter-connecting themes of analysis: **(Theme 1)** the complexity of the regulatory and operating environment; **(Theme 2)** the challenges arising from the multiplicity of employers; **(Theme 3)** the importance of prioritising savers; and **(Theme 4)** operational sustainability.

Future discussions around the identity and purpose of the LGPS, drawing on both internal and external perceptions, will continue to fortify its long-term sustainability.

WHAT IS THE PURPOSE AND ROLE OF THE LGPS?



....I KNOW THEY ALL SAY, 'FAT CATS', AND THAT WE'RE ALL MAKING A LOT OF MONEY. BUT YOU KNOW, A LOT OF OUR SCHEME MEMBERS ARE ON SORT OF A LOWER WAGE AND WE'RE NOT PAYING [...] BIG BENEFITS, SO I THINK YOU'VE GOT TO LOOK AT THE ROUNDER PICTURE. WHY [...] WE EXIST IN THE FIRST PLACE.

⁴⁶ Local Government Pension Scheme Statistics. Available at: <https://www.gov.uk/government/collections/local-government-pension-scheme>

⁴⁷ (a) Baxter, S. "LGPS to become negative cashflow by 2024". Professional Pensions, January 14, 2021. Available at: <https://www.professionalphillips.com/news/4025823/lgps-negative-cashflow-2024>

(b) Bourne, W. "LGPS SF3 Data – We analyse the trends behind the latest statistical release". Linchpin, November 3, 2021. Available at: <https://www.linchpin-advisory.com/post/lgps-sf3-data-we-analyse-the-trends-behind-the-latest-statistical-release>

SUMMARY OF KEY INTER-CONNECTING CONCLUSIONS	THEME 1: THE LGPS REGULATORY & OPERATING ENVIRONMENT	THEME 2: LGPS EMPLOYERS	THEME 3: LGPS AND SCHEME MEMBERS	THEME 4: OPERATIONAL SUSTAINABILITY - SYSTEMS AND PEOPLE
<p>1. Sustained financial strength will be important and is currently not an area of concern.</p>		X		
<p>2. To ensure that the LGPS’s needs are considered and prioritised appropriately (Theme 1): (a) there should be a significant push to ensure the existing framework works in a more joined-up and coherent way and (b) there should be an examination of the benefits of a more centralised approach that could involve creating a new body or giving an existing body greater powers.</p>	X			
<p>3. Regulatory complexity (Theme 1) continues to grow and remains a real operational concern (Themes 1 & 4), especially as the LGPS has little influence over the volume and intricacies of new regulation, or on macro policy decisions – from central government bodies – which impact the LGPS directly (Theme 2).</p>	X	X		X
<p>4. As such recruitment, retention, and resourcing (Theme 4) remain top priorities, to ensure that the LGPS continues to have the right skills to navigate through the regulatory and operational environment. Barriers to talent management (Theme 1 & 4) for the LGPS, as was uncovered by the research project, include the growing regulatory requirements themselves; staff exits before the arrival of McCloud Judgment implementation was an example of this barrier to skills and knowledge retention.</p>	X			X



<p>5. The LGPS is committed to continuing to promote how valuable the scheme is to many people (Theme 3) across the UK who provide support and care services – roles which can be low-paid but are crucial to enabling local communities to thrive. Employers may have a role to play in championing the scheme to members (Theme 2).</p>		X	X	
<p>6. While the relationship between funds and employers (Theme 2) is reported as being overall very positive, the diverse range of employers in the scheme – all with varying needs – has increased administrative complexities in the relationship between funds and employers. Additionally, for some types of employers, the LGPS is increasingly unaffordable, raising questions over which employers should be in the scheme, as well as the need to ensure employers understand their responsibilities to the scheme and members at the point of entry.</p>		X		

The answer to the question, “what is the purpose of the LGPS”, is not straightforward, as there are a spectrum of views within the scheme. At its core, the scheme exists to provide retirement income for later life. However, throughout the course of the research, participants raised issues that imply that many feel that there is a role for the LGPS beyond just paying out the right benefits at the required time. They asked questions such as, “who is the LGPS for?” and “what role or duty of care does the LGPS have, if any, beyond just providing income in later life?”.

The answer to these broader questions may lie in understanding how the scheme wishes to see itself continue to evolve, as well as the external expectations on the scheme, and then to find a balance between these views.

A. EXTERNAL PERCEPTIONS AND EXPECTATIONS OF THE LGPS



THERE IS INCREASING POLITICISATION AND PRESSURE TO POSITION FUNDS TOWARDS OTHER ACTIVITIES [OTHER THAN DELIVERING PENSION BENEFITS].



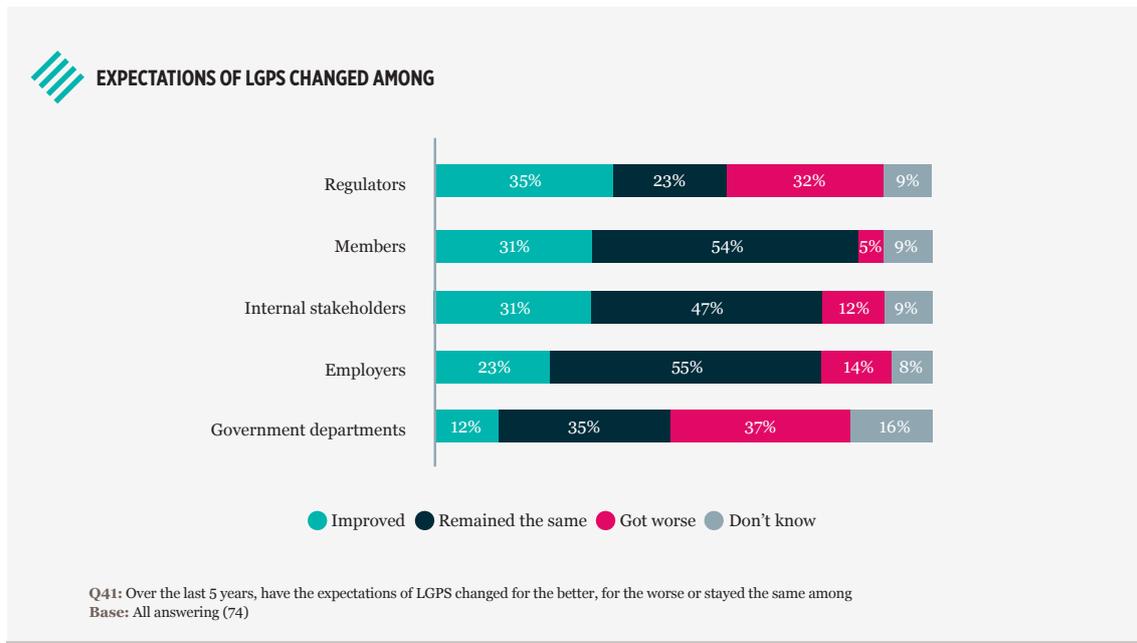
THERE IS A BIFURCATION BETWEEN THE LGPS AS AN ESG VEHICLE AND AS A MECHANISM TO SAFEGUARD FINANCIAL FUTURES.

The PLSA survey asked respondents how they felt about the expectations of external and internal parties for the LGPS and how these have changed over the last five years.

- Most believe the expectations of the LGPS **among members, internal stakeholders and employers** have either improved or stayed the same (85%, 78% and 78% respectively).
- However, more are likely to believe that **Government departments’** expectations have worsened (37%) than improved (12%), while views of **regulators’ expectations** are polarised with a third (35%) believing they have improved, while a similar proportion thinking they have worsened (34%).

The PLSA explored in detail, under Theme 1: The LGPS Regulatory and Operating Environment, the mounting, externally driven regulatory pressures the scheme is coming under, **and the need for a single view** to help make regulatory requirements less complex and easier to navigate. In addition, there has been an increasing trend to direct pension schemes, including the LGPS, towards investment intentions other than just for the purpose of pension provision.

Chart 26: The Long-term Sustainability of the LGPS



Note: Period of time under consideration is “over the last five years”



CONCLUSION OR RECOMMENDATION: THE LONG-TERM SUSTAINABILITY OF THE LGPS

CONCLUSION

The overall objective of the LGPS – to provide a vital financial safety net for lower paid workers in retirement, many of whom have contributed to the provision of local public services – is a key strength of the scheme. This objective may become increasingly deprioritised if the trend to direct pension schemes towards aims other than pension provision continues to increase. The politicisation of the scheme, and pensions more broadly, is a potential risk, given a variety of recent government initiatives and wider cultural and political pressures, including the Investment Big Bang (2021),⁴⁸ DLUHC’s levelling up agenda in England and Wales (2022),⁴⁹ the Productive Finance Working Group recommendations for DC schemes (2021),⁵⁰ the Jenrick Amendment in the Public Service Pensions and Judicial Offices Bill (2022),⁵¹ and pressures for pension funds to establish a net zero strategy.⁵² It will be important to continue to ensure that the core purpose of the LGPS is not lost by wider political discussions.

B. INTERNAL PERCEPTIONS AND EXPECTATIONS: LOCAL VERSUS NATIONAL IDENTITY



THERE IS A TENDENCY FOR PEOPLE IN FUNDS TO BE PROTECTIVE OF ADMINISTRATIVE FUNCTIONS, WHILE OTHERS TAKE A MORE STRATEGIC VIEW. THIS LAYS THE FOUNDATIONS FOR TENSIONS BETWEEN DEFINITIONS OF VALUE AND OF WHAT A GOOD JOB LOOKS LIKE & HOW MUCH PEOPLE ARE INVESTING IN CHANGE AND DEVELOPMENTS.

48 Prime Minister and Chancellor challenge UK investors to create an ‘Investment Big Bang’ in Britain. Please see: <https://www.gov.uk/government/news/prime-minister-and-chancellor-challenge-uk-investors-to-create-an-investment-big-bang-in-britain>

49 HM Government (2022) Levelling Up in the United Kingdom. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052708/Levelling_up_the_UK_white_paper.pdf

50 Productive Finance Working Group (2021). A Roadmap for Increasing Productive Finance Investment. Please see: <https://www.bankofengland.co.uk/news/2021/september/productive-finance-working-group-recommendations-addressing-barriers-to-investment>

51 Public Services Pensions and Judicial Offices Act 2022. Please see: <https://bills.parliament.uk/bills/3032>

52 Make My Money Matter Net Zero Campaign. Please see: <https://makemymoneymatter.co.uk/2020/08/05/make-my-money-matter-launches-net-zero-hero-campaign/>

How to approach the role of the LGPS with scheme members, as well as the role of employers in the scheme, will be based in part on a wider question on scheme identity, both local and national.

Funds may have an established local identity and will have their own ways of running their individual fund; pools may have their own separate understanding of their purpose and will have their own emerging culture as well. Any wider, national cultural identity for the LGPS is inevitably also comprised of a tapestry of individual views:

- Individuals define their roles differently within the LGPS. Some believe their function is to deliver a statutory service – that they are part of an administering function.
- Others see themselves as having a much bigger role in thinking about member and employer engagement: encouraging members to save more and enabling employers to have a greater understanding of pensions issues and their role in the LGPS. Investment-focused LGPS staff will also see their roles and duties through a particular lens.

CONCLUSION OR RECOMMENDATION: THE LONG-TERM SUSTAINABILITY OF THE LGPS

CONCLUSION

There is an opportunity to review the LGPS’s internal identity, to better align day-to-day operational objectives with long-term strategic objectives, which could include doing more for savers and doing more to help employers understand their roles within the scheme. This could also create an opportunity to champion the scheme as an important and compelling place to work by highlighting its purpose, scale, and career opportunities.

C. ALIGNING EXTERNAL AND INTERNAL OBJECTIVES

As we saw in Themes 1 (LGPS Regulatory and Operating Environment) and 2 (LGPS Employers), the objectives of the central government and the LGPS are not always aligned. Politicisation of the scheme is a potential risk, given a variety of external expectations, as seen through recent government initiatives and wider cultural and political pressure for scheme assets to serve more than the purpose of pension provision. This includes the aim to increase infrastructure investment through, for instance, the levelling up agenda in England and Wales⁵³ and the Big Bang Investment.⁵⁴ In addition, funds may have differing views on the boundaries of the purpose of the scheme. Overall, there is also a government and scheme-wide focus on cost saving – as seen through pooling in England and Wales.

⁵³ HM Government (2022) Levelling Up in the United Kingdom. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052708/Levelling_up_the_UK_white_paper.pdf

⁵⁴ Prime Minister and Chancellor challenge UK investors to create an ‘Investment Big Bang’ in Britain. Please see: <https://www.gov.uk/government/news/prime-minister-and-chancellor-challenge-uk-investors-to-create-an-investment-big-bang-in-britain>



There can be balance between these different objectives; achieving that would require external governing bodies to be aware of the LGPS's needs and to help prioritise them in macro policy-making decisions.

Objective setting for the LGPS could align under a single view by doing the following:

- Continue to try to protect the scheme from external pressures, to allow funds the freedom and independence to deliver benefits in a timely and efficient manner.
- To do so the LGPS needs access to adequate resources, in part for staff recruitment and retention, to keep pace with regulatory changes.
- Some within the LGPS also feel very strongly about putting “the saver first”, as the scheme acts as a vital financial safety net for many lower paid workers, many of whom have contributed to the provision of local public services. An understanding of the purpose of the scheme can be lost in political and policy debates, as assumptions are made that all public sector workers have the same level of adequate retirement income.

OPERATIONAL SUSTAINABILITY

On reviewing the evidence gathered to assess long-term sustainability, it is important to re-emphasise the strain on the scheme's operations by the rising regulatory complexities explored in Theme 1: The LGPS Regulatory and Operating Environment.

CONCLUSION OR RECOMMENDATION: THE LONG-TERM SUSTAINABILITY OF THE LGPS

CONCLUSION

Investing in operational resilience – assessing resilience, risk/impact and drivers/mitigants – remains key to enhanced long-term understanding of sustainability and is something the LGPS should as a whole commit to doing. To do this, it will continue to need the right staff with the right skills in place.

Regulatory complexity remains a risk to operational sustainability. With constrained resources, it will remain a challenge to continuously monitor, interpret, implement, and comply with regulatory changes. There is now an opportunity to (a) have a significant push to ensure the existing framework works in a more joined-up and coherent way; and (b) to examine the benefits of a more centralised approach that could involve creating a new body or giving an existing body greater powers. Joined-up working and a centralised approach would allow the scheme's priorities and needs to be championed in cross-departmental discussions on both pensions policies and wider policy issues that have a knock-on consequence for the LGPS's operations.

LGPS funds' staff retention issues remain prevalent. Competition for talent remains fierce over pay – a situation made worse by effects of the pandemic on the job market. Given hybrid working is now the normal standard for most office jobs, many working in the LGPS outside of regional hubs or city centre locations can now also compete for roles that pay more than many administering authorities can typically offer.

Problems with retention and recruitment are exacerbated by increasing regulatory complexity. Project participants reported staff exiting in part because they did not want to be present for the McCloud Judgment implementation, which provides a wider insight into the lack of confidence by LGPS employees in the stabilisation of regulatory change. The complex regulatory environment is thus a retention and recruitment barrier, and thereby a threat to operational sustainability as well. The E&W SAB's Good Governance Project recommendations should also be taken forward to help advance work around common standards within the scheme's governance, as recommended under Theme 1: The LGPS Regulatory and Operating Environment.⁵⁵

⁵⁵ SAB Secretariat (2021), Letter to Luke Hall MP. Available here: https://www.lgpsboard.org/images/Other/Annex_to_Good_Governance_letter_110221.pdf

1. WHAT IS THE PURPOSE OF THE LGPS?

Answers to this question could help drive outcomes in external and internal expectations of the LGPS, helping to contribute to long-term sustainability of the scheme



2A.

EXTERNAL EXPECTATIONS

- Can be a driver of regulatory complexity of LGPS operating environment
- Potential risk of politicisation of the LGPS, as well as other aspects of the pensions industry

2B.

INTERNAL EXPECTATIONS

National versus localised identity of the LGPS, which can be driven by a variety of individualised views.

2B3.

My job is just to ensure the payment of benefits

2B2.

What is the LGPS role for scheme members?

2B1.

What is the role of Employers?



3A.

FINANCIAL STRENGTH

3B.

OPERATIONAL SUSTAINABILITY

INCLUDES:

Talent Management;
Ability to access resources; Easing Regulatory Complexity;
Good Governance



4. LONG-TERM LGPS SUSTAINABILITY

TODAY'S CHALLENGES, TOMORROW'S OPPORTUNITIES

Long-standing issues impacting the scheme are coming to a head – how government departments work together; disparate legislation and governing bodies; loss of knowledge through staff retirement and difficulties in recruitment.

As such, a key risk to long-term sustainability is from maintaining operational sustainability: keeping up with increasing regulatory complexity and burden with constrained resources; increasing effort needed to navigate through an increasing number of guidance documents – some of which are very good, some of which are confusing; working with the increasing number of employers, particularly in England, to help maintain their understanding of their responsibilities to the scheme; an increasingly digitising world; and changing demographics and needs within the scheme membership.

Linked to this, managing external and internal expectations will also be key to ensuring that the scheme is not politicised and that savers are kept at the centre of the purpose of the scheme.

Having access to enough resources to secure the right systems and people are only part of the answer. Long-term sustainability will also require (a) a significant push to ensure the existing framework works in a more joined-up and coherent way; and (b) an examination of the benefits of a more centralised approach that could involve creating a new body or giving an existing body greater powers. Joined-up working and a centralised approach would allow the scheme's priorities and needs to be championed in cross-departmental discussions on both pensions policies and wider policy issues that have a knock-on consequence for the LGPS's operations.

This year-long research project has begun to identify what challenges may lie ahead for the scheme and has presented options on how we can turn them into tomorrow's opportunities, to continue to ensure the long-term sustainability of the LGPS.



VII. NEXT STEPS



The PLSA will work with its members and other bodies involved in supporting the delivery of the LGPS, to build on this programme of work, to continue to help future-proofing the LGPS.

Themes of work to consider as next steps from this research project:

- Produce a “a regulatory map” to highlight to external stakeholders the complexities in which the LGPS operates
- Collecting best practice in managing employer exits
- Project looking at how to “do more for savers”
- Project looking specifically at (a) the impact of types and size of employers on the scheme and (b) possible future trends of the types of employers within the LGPS
- Enhanced, updated guidance for employers looking to join the LGPS, including outlining the benefits of doing so, as well as detailed explanations of their responsibilities to the scheme and scheme members
- Review of what resources are needed within the LGPS, to aid in recruitment, retention and resourcing initiatives
- A wider public relations campaign for the LGPS, to help enhance the understanding of administering authorities of the different types of LGPS pensions’ roles, why they are important, and why flexibility around resourcing and pay is crucial for retention and recruitment of staff in the LGPS
- Case studies of best practice in Talent Management (follow-up to 2018 PLSA Talent Management Guide)

VIII. ANNEXES

ANNEX 1: METHODOLOGY

The research project utilised mixed methods and involved a survey, interviews and roundtables with LGPS members. The project fieldwork commenced in July 2021 and concluded in October 2021.

Roundtables

The first stage of the research comprised of four roundtables covering these themes:

- Governance and Frameworks
- Employers
- Systems and tools
- Operational Sustainability

The roundtables were conducted in July 2021 and each one had between ten and fifteen LGPS fund members attend. The attendees represented geographical regions across the UK, were individuals that held positions in administration, management, finance, communications, operations, funding & valuation, or were directors. The purpose of the roundtables was to ensure that the right issues were being explored in the research project. Insights from each of these two and a half hour long discussions (producing ten hours of content to analyse) were used as building blocks for the survey that was released to LGPS funds in Autumn 2021.

The focus of the research was deliberately away from England and Wales pooling governance structures, as these issues are too big and complex to look at properly alongside the core themes identified in this report.

Survey

Detailed information from workshops was used to develop a survey to gather quantitative and qualitative data from these themes: frameworks; employers; people, tools and processes; and external perceptions and future expectations. The survey ran from 5 October 2021 to 25 October 2021. 98 survey responses were received from a diverse range of funds where a total of 66 funds were represented. Respondents covered a broad range of roles, from fund administrators to pension board members.

Additional Qualitative Interviews

Follow-up interviews were held with survey respondents in Q4 2021, to gain further insights into information collected from the survey. Ten one-to-one interviews were conducted. They were each in-depth telephone/online interviews lasting for approximately 30 to 60 minutes. The interviews were conducted with a variety of senior leaders within the LGPS, covering a range of technical, administrative, financial and operational roles and duties.



ANNEX 2: HISTORICAL TIMELINE – KEY MILESTONES OF THE LGPS

- 1922** The Local Government and Other Officers' Superannuation Act 1922 gave local authorities the control to provide pensions for certain types of employers.⁵⁶
- 1937** The Local Government Superannuation Act 1937 focused on the details around providing widows' pensions on the death of employees.⁵⁷
- 1953** The Local Government Superannuation Act 1953 established lump sum payments in the event of retirement due to ill-health or injury.⁵⁸
- 1972** The LGPS scheme regulations were established under the Superannuation Act 1972, making the LGPS recognisable as the scheme we know today.^{59,60}
- 1988** The Local Government Act 1988 made competitive tendering compulsory for many services throughout the UK.⁶¹
- 1989** The Local Government and Housing Act 1989 provided a national code of local government finance conduct.⁶²
- 1993** The Pension Schemes Act 1993 established the LGPS as a statutory public service pension scheme for Northern Ireland.⁶³
- 1997** Referendums were held in Scotland and Wales, paving the way for the Scottish Parliament and the National Assembly in Wales.^{64,65}
- 1998** The Good Friday Agreement transferred legislation and executive powers to the Northern Ireland Assembly and Executive Committee.⁶⁶
- 2000** The Local Government Act 2000 required local authorities in England to establish overview and scrutiny committees.^{67,68}
- 2008** The Pensions Act 2008 established automatic enrolment.⁶⁹
- 2010** The Great Recession set off a series of austerity measures that impacted local authorities, including pay freezes.⁷⁰
- 2011** The Localism Act 2011 aided the devolution of decision-making powers from central government to communities.^{71,72}

56 Hansard (1922) The Local Government and Other Officers' Superannuation Act 1922. Please see: <https://api.parliament.uk/historic-hansard/commons/1922/apr/07/local-government-and-other-officers>

57 International Actuarial Association on Local Government Superannuation Act 1937. Please see: [https://www.actuaries.org.uk/system/files/documents/pdf/0081-0083.pdf#:~:text=53%2C%20285\)%20and%20the%20Local,at%20the%20time%20of%20retirement](https://www.actuaries.org.uk/system/files/documents/pdf/0081-0083.pdf#:~:text=53%2C%20285)%20and%20the%20Local,at%20the%20time%20of%20retirement).

58 International Actuarial Association on Local Government Superannuation Act 1953. Please see: [https://www.actuaries.org.uk/system/files/documents/pdf/0081-0083.pdf#:~:text=53%2C%20285\)%20and%20the%20Local,at%20the%20time%20of%20retirement](https://www.actuaries.org.uk/system/files/documents/pdf/0081-0083.pdf#:~:text=53%2C%20285)%20and%20the%20Local,at%20the%20time%20of%20retirement).

59 Superannuation Act 1972. Please see: <https://www.legislation.gov.uk/ukpga/1972/11/contents>

60 West Midlands Pension Fund (2021) A Brief Guide to the LGPS for Employees in E&W. Available at: <https://www.wmpfonline.com/CHttpHandler.ashx?id=14072&p=0>

61 House of Commons Library (2019) Local government: alternative models of service delivery. Briefing Paper Number 05950. Available at: <https://researchbriefings.files.parliament.uk/documents/SN05950/SN05950.pdf>

62 Local Government and Housing Act 1989. Please see: <https://www.legislation.gov.uk/ukpga/1989/42>

63 Pension Schemes Act 1993. Please see: <https://www.legislation.gov.uk/ukpga/1993/48/contents/enacted>

64 The Scottish Parliament. History of the Scottish Parliament. Available at: <https://www.parliament.scot/about/history-of-the-scottish-parliament/the-path-to-devolution>

65 Cabinet Office (2013) Devolution settlement: Wales. Available at: <https://www.gov.uk/guidance/devolution-settlement-wales>

66 Northern Ireland Assembly. The Belfast Agreement/Good Friday Agreement 1998. Available at: https://education.niassembly.gov.uk/post_16/snapshots_of_devolution/gfa

67 Local Government Act 2000. Please see: <https://www.legislation.gov.uk/ukpga/2000/22/introduction>

68 MHCLG (2019) Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800048/Statutory_Guidance_on_Overview_and_Scrutiny_in_Local_and_Combined_Authorities.pdf

69 Pensions Act 2008. Please see: <https://www.legislation.gov.uk/ukpga/2008/30/contents>

70 ONS (2018) The 2008 recession 10 years on. Available at: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/the2008recession10yearson/2018-04-30>

71 The Localism Act 2011. Please see: <https://www.legislation.gov.uk/ukpga/2011/20/contents/enacted>

72 MHCLG (2011) Localism Act 2011: Overview <https://www.gov.uk/government/publications/localism-act-2011-overview>

- 2013** The Public Service Pensions Act 2013 created the career average public service pension scheme to replace existing final salary schemes; introduced an employer cost cap; and set out requirements for scheme governance, regulation and administration.⁷³ It established the creation of scheme advisory boards and local pension boards (by 2015). TPR's role was expanded to cover public sector schemes.⁷⁴
- 2013** The Local Government Pension Scheme Regulations 2013 set out the role of an Administering Authority.⁷⁵
- 2014** The Public Services Pensions Act (Northern Ireland) 2014 established the Northern Ireland LGPS Scheme Advisory Board. It also established the Department for Communities as the responsible authority for the Local Government Pension Scheme (NI) (LGPS (NI)). It also set out the new governance framework for the LGPS (NI), with NILGOSC as the scheme manager and the Pension Board.⁷⁶
- 2014** The LGPS became a CARE scheme, effective from April 2014, for England and Wales.⁷⁷
- 2015** Small Business, Enterprise and Employment Act 2015.⁷⁸
- 2015** The LGPS in Scotland and Northern Ireland became a CARE scheme.^{79,80}
- 2015** MHCLG published investment reform criteria and guidance for pooling in England and Wales.⁸¹
- 2016** Eight pools submitted detailed proposals to Government, for England and Wales.⁸²
- 2016** Enterprise Act 2016 supported the growth of enterprise in the UK.⁸³
- 2016/17** Annual Allowance cap was lowered to £40K in 2016/17 tax year.⁸⁴
- 2018** Deadline for LGPS fund in England and Wales to begin transitioning assets into pools.⁸⁵
- 2018** Scottish structural review of the LGPS began.⁸⁶
- 2019** McCloud Judgment is declared to apply to all public sector schemes.⁸⁷
- 2020** England and Wales SAB released third and final report on recommendations from the Good Governance Project.⁸⁸
- 2020** Legislation implementing the £95k cap on exit payments came into force.⁸⁹
- 2021** MHCLG revoked regulations for Public Sector Exit Payments.⁹⁰
- 2022** DLUHC published White Paper on Levelling Up for England and Wales.⁹¹
- 2022** The Public Service Pensions and Judicial Offices Act established how discrimination identified by the courts through the McCloud Judgment will be removed.⁹²

73 HMT (2013) Guidance: Public Service Pension Reforms. Available at: <https://www.gov.uk/government/publications/public-service-pension-reforms/public-service-pension-reforms>

74 Public Service Pensions Act 2013. Please see: <https://www.legislation.gov.uk/ukpga/2013/25/section/7>

75 LGPS Regulations 2013. Please see: <https://www.lgpsregs.org/schemeregs/lgpsregs2013.php>

76 Department for Communities. LGPS for NI. Available at: <https://www.communities-ni.gov.uk/articles/local-government-pension-scheme-northern-ireland>

77 LGPS website. How your pension is worked out. Available at: <https://www.lgpsmember.org/your-pension/paying-in/how-your-pension-is-worked-out/>

78 LGA (2015) Small Business, Enterprise, and Employment Act 2015. Available at: <https://www.local.gov.uk/publications/small-business-enterprise-and-employment-act-2015-get-act>

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80 Department of Finance. The Public Service Pensions Revaluation (Earnings) Order (Northern Ireland) 2017. Available at: <https://www.finance-ni.gov.uk/publications/public-service-pensions-revaluation-earnings-order-northern-ireland-2017>

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KEY FRAMEWORKS GOVERNING THE LGPS

1. The Public Service Pensions Act 2013
2. The Local Government Pension Scheme Regulations 2013
3. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
4. The Local Government Pension Scheme (Transitional Provisions, Savings (Scotland) Regulations 2014
5. The Local Government Pension Scheme Regulations (Northern Ireland) 2014. Subsequently there has been several amendments including:
 - The Local Government Pension Scheme (Amendment) Regulations (Northern Ireland) 2019
 - The Local Government Pension Scheme (Amendment) Regulations (Northern Ireland) 2020
 - The Local Government Pension Scheme (Amendment) Regulations (Northern Ireland) 2022
6. The Local Government Pension Scheme (Amendment and Transitional Provisions) Regulations (Northern Ireland) 2014
7. The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015
8. The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016
9. The Local Government Pension Scheme (Scotland) Regulations 2018

Note: The LGPS operates within a wider legislative framework as well, which includes: The Employment Rights Act, Discretionary Regulations, Local Government Acts, the Freedom of Information Act, and the General Data Protection Regulation (GDPR).



ANNEX 3: ACRONYMS

AE	Automatic Enrolment
CARE	Career Average Revalued Earnings
CIPFA	Chartered Institute of Public Finance and Accountancy
COSLA	Convention of Scottish Local Authorities
CPI	Consumer Price Index
DB	Defined Benefit
DC	Defined Contribution
DDA	Deferred Debt Agreements
DfC	Department for Communities (NI)
DfE	Department for Education
DLUHC	Department for Levelling Up, Housing and Communities
DSA	Debt Spreading Agreements
DWP	Department for Work and Pensions
ESG	Environmental, Social, and Governance
E&W	England and Wales
FCA	Financial Conduct Authority
FE	Further Education
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
GAD	Government Actuary's Department
GDPR	General Data Protection Regulation
GMP	Guaranteed Minimum Pension
HE	Higher Education
HMRC	Her Majesty's Revenue & Customs
HMT	Her Majesty's Treasury
HR	Human Resources
LGA	Local Government Association
LGPS	Local Government Pension Scheme
MaPS	Money and Pensions Service
MHCLG	Ministry of Housing, Communities and Local Government
NEST	National Employment Savings Trust
NI	Northern Ireland
NILGOSC	Northern Ireland Local Government Officers' Superannuation Committee
PLSA	Pensions and Lifetime Savings Association
SAB	Scheme Advisory Board
SLGPS	Scottish Local Government Pension Scheme
SPPA	Scottish Public Pensions Agency
TPR	The Pensions Regulator
WLGA	The Welsh Local Government Association



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