

Scheme Advisory Board

ITEM 3 – PAPER A – ACTIONS AND AGREEMENTS

HYBRID MEETING HELD ON 17TH JULY 2023 – 1.00pm

PRESENT

Cllr Roger Phillips	Chair
Jon Richards	Vice-Chair (UNISON)
Cllr Yvonne Johnson	Scheme Employer Representative
Cllr John Beesley	Scheme Employer Representative
Cllr John Fuller	Scheme Employer Representative
Cllr Christopher Weaver	Scheme Employer Representative
Cllr Andrew Thornton	Scheme Employer Representative
Emelda Nicholroy	Scheme Employer Representative (UCEA)
George Georgiou	Scheme Member Representative (GMB)
John Neal	Scheme Member Representative (UNITE)
Garry Warwick	Scheme Member Representative (GMB)
Bridie McCreesh	Scheme Member Representative (UNITE)
Chris Tansley	Scheme Member Representative (Unison)
George Graham	Practitioner Representative (SYPA)
Mark Wynn	Compliance and Reporting Committee Chair
Nick Kirby	TUC
Joe Dabrowski	PLSA
Teresa Clay	DLUHC
Matt Gurden	GAD
Gary Delderfield	Eversheds Sutherland
Alan Wilkinson	SPPA
Jo Donnelly	LGA – Board Secretary
Jeremy Hughes	LGA – Deputy Board Secretary
Lorraine Bennett	LGA – Senior Pensions Adviser
Becky Clough	LGA – Board Support Officer

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Gareth Brown	LGA – Pensions Analyst
Ona Ehimuan	LGA – Pensions Secretary

Item 1. Welcome, apologies and introductions

1. Apologies for absence were received from Jonathan Hunt (Consultant to LGA) and David Murphy (NILGOSC). Cllrs Phillips and Fuller gave apologies that they would need to leave the meeting at 2:30pm to attend a meeting at No10 on an unrelated subject.

Item 2. Meeting Protocol and declarations of conflicts of interest

2. The Chair reminded attendees of the hybrid meeting protocol. There were no declarations of interest.

Item 3. Actions & Agreements from 22nd May 2023 meeting (Paper A)

3. The minutes of the meeting of 22nd May 2023 were confirmed as an accurate record of the meeting. On the status of the McCloud Judicial Review summary note, Gary Delderfield (GD) confirmed that this had been completed and would be sent to the Secretariat imminently. George Georgiou (GGe) informed the Board that the Court of Appeal would hear the appeal against the High Court judge's decision in December 2023 or January 2024.

Item 4. Economic Activity of Public Bodies (Overseas Matters) Bill

4. Jo Donnelly (JD) informed the Board that she had attended a meeting between the then political leader of the LGA, Cllr James Jamieson, and DLUHC Minister Felicity Buchan about the Bill. Cllr Jamieson had explained his concerns to the minister, with a particular focus around the enforcement regime arrangements.
5. JD also said that the second reading of the Bill had been held in Parliament on July 3rd. The Public Bill Committee stage would be held in September and there had been a call for written submissions. The LGA had issued a technical briefing on the Bill ahead of the second reading, and the Secretariat would be working on a submission for the committee, on behalf of the Board, along with a SAB specific briefing. Development of this would take place over the coming weeks.

Item 5. Consultations Update

6. Updates were given as follows:
 - **i) McCloud** – Lorraine Bennett (LB) informed the Board that DLUHC's second McCloud consultation closed on 30th June 2023. The LGPC response comprised largely of responses to technical issues raised. There were ongoing concerns about the timing of regulations and resource capacity within DLUHC to do this work. The LGPC team had begun work to procure a

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provider to draft communications for scheme members with input from the Communications Working Group. There were plans for information to be placed on the member website including news articles, specific pages on McCloud, a short animation, an interactive tool, and a factsheet for funds to use.

- **ii) Survivor benefits and death grants** – LB updated the Board that draft regulations had been seen and there were still some areas that required further discussion. Teresa Clay (TC) thanked the SAB and LGPC teams for their contributions which had identified areas of the draft regulations that required further legal advice. This now meant that DLUHC would not be able to move forward with the regulations until the Autumn.
- **iii) Good Governance** – Becky Clough (BC) confirmed that a consultation on updated regulations or statutory guidance were not expected until early 2024. In the meantime, a working group would review the 2008 DLUHC guidance on Governance Compliance Statements. DLUHC had also indicated that Knowledge and Skills and Conflicts of Interest were areas where policy could helpfully be progressed to inform the consultation.
- **iv) Investments** – The Board were reminded that the Investments consultation was issued on 11th July 2023 and closes on 2nd October 2023. The areas covered in the consultation include the transition of all listed assets from funds to pools by March 2025, proposals to increase investments in private equity and requiring funds to set a target for investments linked to Levelling Up missions. Also covered, were proposals on two technical amendments, one on the CMA Order, and the other an amendment to the definition of investments in the 2016 Investment Regulations. The consultation also suggested that the minimum pool size was expected to be £50 billion and that in the future there would be fewer pools than at present. There was a need to consider how this would be achieved as pools were already established entities with individual governance systems. DLUHC had said however that the £50 billion pool size target was not rigid and there may be exceptions in some instances (e.g. in the case of the Wales Pension Partnership). TC indicated that government's view was that the transition to fewer pools would likely happen in 3 phases; the first being moving more assets to pools; the second being more collaboration between and specialisation of pools. The third – longer term – phase would be the rationalisation of pools to ensure more are around the £50 billion level that government believes is appropriate. The Board discussed initial views on the consultation. The Secretariat will feed these comments into the formal SAB response as it would need to be submitted before the next Board meeting on 4th December 2023.

Joe Dabrowski (JDa) said that PLSA's survey of funds found that reception to the consultation was not enthusiastic. it seemed largely comprised of general

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themes but lacked clarity in important areas. On Levelling Up investments, he suggested that the Office for Investment and British Business Bank needed to create opportunities in this space. A question was raised about the various investment targets that had been laid out in the consultation and previously by Government. These would comprise a substantial proportion of a fund's asset portfolio if each was followed and considered a separate category. TC explained that these targets were not rigid and that individual assets could count towards a number of different targets. She also confirmed that the final authority on investment decisions would remain with administering authorities.

Roger Phillips (RP) said that at his meeting with the Minister, he had said that funds were, by and large, open to investment in local infrastructure but there are barriers to engaging in this strategy. The priority should remain to achieve a return on investments made regardless of asset class. RP noted that there was a need for further reflection on the Board's response to the pooling target set out in the consultation. He said that it was likely that there would be fewer pools in ten years' time, there was still a debate to be had on how this would be achieved. The process would take time, sizeable capacity, and effective leadership. The Board is well positioned to take the lead on this, but there would need to be an assessment of whether there was sufficient capacity to support an additional workstream.

JD commented that the proposal for Knowledge and Skills in the consultation (paras. 32 and 33) was disappointing, given the recommendations in the Good Governance action plan. The Board agreed and felt that this proposal could have been more robust; JD suggested inclusion of this point in the Board's response.

It was agreed that a working group be established to contribute to the SAB response to the Investments consultation. The participants of this working group would be Cllr John Fuller (JF), GGe, George Graham (GGer), Cllr John Beesley (JB), Jon Richards (JR), and Mark Wynn (MW). The first meeting would be arranged by the Secretariat over the summer.

ACTION – That the first meeting of the Investment consultation working group be arranged by the Secretariat.

Item 6. Cost Control Mechanisms (Paper B)

7. JH introduced Paper B to the Board. The results of the Treasury Cost Control Mechanism were expected in the Autumn and the SAB Scheme Cost Assessment (SCA) process would run in advance of this. The timing of the SAB SCA was important as any outcome from it was meant to be fed into the Treasury process.

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8. It was thought to be unlikely that there would be a breach in this instance. There were several factors contributing to downwards pressure on elements within the cost control mechanism but equally the effect of the economic check was likely to at least offset them. During the 2016 SAB SCA process, the Board chose assumptions for the SAB mechanism that were similar to the Treasury's assumptions for their CCM. There would need to be a discussion on whether that should be the case again. A key assumption would be the choice of a discount rate for the SAB SCA.
9. The Secretariat were working with Matt Gurd (MG) from GAD to determine the timelines for providing advice to the Board and when decisions needed to be taken. It was agreed that decisions on assumptions would need to be made through correspondence ahead of the next Board meeting on 4th December 2023.

Item 7. Code of Transparency Reporting System (Confidential Paper C)

10. Ona Ehimuan (OE) introduced Paper C to the Board. The Code of Transparency has been a success to date with over 90% of LGPS AUM being managed by signatories to the Code. The data system associated with the Code was launched in March 2020, after the award of the contract for development and management of the system in August 2019. The contract held with Byhiras is coming to an end in August 2024, which required the Board to consider the future of the reporting system.
11. Three potential options were presented to the Board along with the timing, pros, cons and budgetary considerations for each option.
12. The three options were as follows:
 - 1) To allow the current contract to expire in August 2024 and not reprocure a replacement system
 - 2) To activate the clause in the existing contract that permits extension until August 2026
 - 3) To reprocure the system, potentially with some moderate changes, or to procure a new system with potentially different functionalities to the current system.
13. Option 2 would allow extra time for premarket engagement and additional consideration of the future of the system. Option 2 would also not incur additional costs which had not been allowed for in the proposed SAB budget.
14. Though the Code had been a success to date, the take up of the system by practitioners was lower than hoped and the Secretariat were carrying out a series of roadshows and training sessions to promote better understanding and engagement of the system. As part of these sessions, feedback was being sought on the original purpose of the system and whether any extra functionality would be useful to users, in the future.

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The Board felt it important to understand what feedback was coming from the roadshows, although the Board agreed its preference as to the most appropriate option from the three presented.

ACTION – That the Secretariat collate and share feedback from the CoT roadshows with the Board in a paper at the next meeting.

15. At this point RP and JF needed to leave the meeting and JR assumed the Chair.

Item 8. Annual Report update

16. Gareth Brown (GB) informed the Board that the tenth Scheme Annual Report was published on 27th June 2023 and invited comments or suggestions for changes in future reports. There were none, and JR (who had assumed the Chair) thanked GB for his work in creating the report.

Item 9. Board Budget 2023/24 (Confidential Paper D)

17. The Board discussed the delayed approval of the 2023/24 Budget and Workplan by the Minister. The Chair informed the Board that he had recently met with the Minister and had a substantive discussion on this issue.
18. JD informed the Board that the Minister had requested alternative options for the 2023/24 budget before making a final decision on which option to approve. The Board discussed and approved the options presented in the paper.
19. It was agreed that there was a need to develop a medium-term financial plan to enable clarity in future years with the aim of reducing late approval of the budget and workplan, and therefore giving more certainty to the Board. JR noted the extra workstreams that would need be undertaken by the Secretariat given the multiple references to SAB in the investment consultation. It was noted that there may well be a need for additional secretariat resource in future to enable the SAB to deliver on those expectations.
20. It was noted the SAB provided a service that offered high value for money for funds and without a sufficient budget many workstreams would need to be outsourced by individual funds at a far greater individual and total expense than the annual SAB levy.

Item 10. Terms of Reference (Paper E)

21. Becky Clough introduced Paper E to the Board which included a recommendation that the Board's Terms of Reference be updated to amend the minimum number of four meetings per year to three. The Board agreed this change and understood the rationale behind the change.

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ACTION – That the Terms of Reference be changed and updated on the SAB website.

Item 11. Board and Committee Membership

22. OE informed the Board that Nick Kirby's second term was approved by the Chair in May 2023. As a non-voting member, Nick's term renewal would not need Ministerial approval. GGe's second term had begun in December 2022 and Cllr Yvonne Johnson's first term would be coming to an end in October 2023. OE asked TC whether voting members would need their second terms approved by the Minister. There was no clear wording on the matter in the current Terms of Reference. It was agreed that further discussion be held on this matter.

ACTION – That the Secretariat discuss the renewal process for voting Board members with TC

Item 12. Compliance and Reporting Committee Report (Paper F)

23. MW introduced Paper F to the Board and the contents were noted. It was agreed that the Chair raise the issue of following through on the separation of pension fund accounts and audit delays with the Minister.

24. JD informed the Board that the Minister would be giving evidence to the Levelling Up Committee in its inquiry into financial reporting and audit in local authorities at a meeting on 17th July 2023 and a statement was expected shortly thereafter.

ACTION – That the Chair discusses the separation of pension fund accounts and audit with the Minister.

Item 13. Cost Management Committee Report (Paper G)

25. GGe introduced Paper G to the Board and the contents were noted.

Item 14. Investment Committee Report (Paper H)

26. Cllr Yvonne Johnson (YJ) introduced Paper H to the Board and the contents were noted.

Item 15. AOB and date of next meeting

27. JDa informed the Board that the DWP and HMT had launched a call for evidence which cited TPR research on Pension trustee skills, capability and culture. This would be open until 5th September 2023. It was agreed that the Secretariat would circulate this to the Board.

28. JDa also flagged that the Department for Work and Pensions (DWP) has launched the Taskforce on Social Factors to look at some of the key

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challenges around managing social factors, including the identification of reliable data and metrics.

ACTION – That the Secretariat circulate DWP and HMT's call for evidence to the Board

29. The date of the next meeting is set for 4th December 2023.
