Key Priorities for the LGPS in 2024

As 2024 gets into full swing, the LGPS has perhaps never been in a stronger position – funding, governance and contribution to society continue to strengthen. Funds are well-placed to provide both high-quality, sustainable pensions for members and an affordable and attractive staff benefit for LGPS employers to facilitate service delivery.

However, in this age of unpredictability, we face a range of old and new challenges. All at the same time the spotlight remains firmly on the LGPS.

We set out our thoughts on what funds might focus on this year.

Actuarial

Strategy evolution: a new economic landscape is taking shape which brings a new funding era of LGPS surpluses. In the past, funding focused on plugging deficits through maximising investment returns and employer contributions within risk and affordability constraints. We're now in a very different place which will require LGPS funds to consider their strategy, potentially leading to changes. There isn't a "correct" answer to what such changes should be, instead there are multiple options for funds to consider. This can make embracing change difficult, but it is a genuine positive opportunity for LGPS funds to review and evolve their strategy to fully reflect their funding beliefs and local circumstances. As funds take different paths, we can expect perhaps more strategy dispersion within the LGPS.

Action: with the 2025 valuation quickly approaching, it's important to create the time and space in 2024 to fully consider how your funding strategy should evolve, justify your choices to all stakeholders and evidence decision-making. The starting point will be exploratory analysis and modelling which tests possible strategy paths. The output can form the basis for a strategy day to revisit plans, agree immediate actions and discuss next steps. Consideration will also need to be given to the policy updates required to allow for strategy changes eg creating/reviewing rules around allowable contribution reductions for ongoing employers.

Rethinking risk: surprises and shocks continue to dominate the news and there is no sign of economic volatility calming in 2024. In this environment, effective LGPS risk management needs access to wide analytics, ongoing monitoring, and an ability to navigate the changeable horizon. At the same time, LGPS stakeholders hold increasingly strong views and varied outlooks. This means funds will need to consider how to explore these differing views, build consensus decisions and create robust audit trails for agreed actions.

Action: start by taking a step back and considering all the sources of funding risk and opportunity and which ones do you view as the most important to monitor and manage. You may want to involve different stakeholders as part of this exercise. Then create a clear, comprehensive plan for monitoring those key risks and opportunities. The plan should include what metrics and information is needed, where these are gathered from, what actions you could take and, importantly, when/how decisions are made.

Employer engagement: with budget pressures, improved LGPS funding positions and an ever-growing employer base, employer objectives and requirements are diverse. For some employers (and their advisers), the 2025 valuations can't come quick enough to review contributions. For many admitted bodies, attractive exit conditions mean once distant cessation decisions have been brought forward at pace. LGPS funds will need to be confident they can effectively manage an increasing number and diversity of employer requests and scenarios over the next 12 months.

Action: review the funding position of all your employers to understand what recent changes mean for their position in the fund. Look at this output to see where there are opportunities (eg affordable exit or de-risking for small, closed employers? employer-level investment strategies?) and what are the risks (eg large exit credits, unrewarded investment risk). In England and Wales, consider a pre-valuation employer engagement plan to collate circumstances and preferences to feed into decisions on balancing of contribution rates, investment risk and prudence levels. In Scotland, consider post-valuation actions to build on the successes of 2023 and maintain momentum.

Investment

Government guidance: perhaps the biggest LGPS story of 2023 was the government consultation launched in July. This was swiftly concluded with a response in November, setting out the guidance to be drafted or adapted on the areas addressed, including pooling, Levelling Up and private equity, with additional reporting requirements. We await the guidance and key details of what will be included.

Action: be prepared! It's sensible to wait for the guidance to make clear what funds need to do. However, based on what we already know, preparatory work could include assessing how your investments stack up against the need to pool assets by 2025. You can also make sure you understand your Fund's appetite to support the voluntary Levelling Up and private equity requirements, while planning with your pool and partner funds.

Natural capital: the newly released Taskforce for Nature-related Financial Disclosures (TNFD) has intensified interest in biodiversity and nature-related issues, as asset owners consider the impact of their investments, much as they have been doing with climate change. Understanding the risks and opportunities, gaining reliable data, and taking action will be a long process.

Action: be cautious when making investments today. While there are many opportunities arising in the market to meet the new demand, they have limited track records. Being a first mover into markets can be rewarded, but it also poses significant risks. The first step should be to understand your Fund's beliefs, preferred approach to tackling this and, as far as possible, understanding your current position.

Bonds: while inflation appears to be calming and interest rates are at or near their peak, their impact on bond markets is visible in their high yields relative to the last 15 years. Bonds have been largely overlooked by the LGPS recently, due to low (and sometimes negative) yields not being compatible with portfolios that need to earn long-term positive real returns. This has meant that de-risking opportunities have therefore focused on selling equities and investing in relatively high-risk private markets assets, rather than the traditional bonds. There may now be opportunities to invest in genuinely lower-risk assets for return levels that are acceptable to LGPS investors.

Action: reassess your funding requirements and investment strategy to test the affordability of increasing your allocation to more traditional de-risking assets like investment grade corporate bonds and gilts. But ensure that you stress test the risks posed by inflation remaining higher for longer.

Governance, Administration & Projects

Governance: in the land of actuaries, assumptions are commonplace, and we must make quite a few this coming year for LGPS governance requirements. However, one area we don't have to make an assumption on is the Pensions Regulator's General Code of Practice – laid in Parliament early in 2024 and expected to come into force by late March. We still expect to see the outcome of the Scheme Advisory Board's (SAB) Good Governance project in 2024. We could see echoes of the Good Governance project vision for alignment between Pension Committee and Board training requirements in the recent (E&W) pooling consultation, and we've seen funds embrace this ethos and start planning for 2024 implementation. Enhancing training strategies and plans is an area we expect to continue to see at the top of that agenda. We're sure Scottish funds will keep a close eye on those developments south of the border.

Action: consider reviewing your current training strategy and plans against the anticipated changes to ensure you can absorb new regulations as and when they arise. In particular, consider what, if any, training your wider stakeholder group might need to support you in achieving your Fund's goals.

Administration: the biggest name in the LGPS administration remains McCloud. Most of the legislation is now on the books and the LGA's extremely useful guidance promises to take on epic proportion. We're expecting DLUHC's statutory guidance to arrive soon, but the knotty issue of excess teacher's service remains unresolved.

The government has reset the clock on The Pensions Dashboard and the expectation is that public service schemes will have until September 2025 to connect. Before then, some issues, such as how AVCs should be treated, will need to be resolved.

There is the expectation of a late Christmas present in 2024 in the shape of a consultation on a few administrative snags that have been awaiting resolution for a while. With luck, we'll see legislation helping funds to deal with refunds and closing the loophole in the forfeiture regulations. Also expected is a consultation on legislation to deal with the issue of survivor benefits, raised by the Goodwin case.

Something new for us to think about comes in the findings of the SAB's legal advice on whether the LGPS is Sharia compliant. It's expected that the findings won't lead to radical change, but it may be an opportunity for the LGPS as a whole to consider whether it is as inclusive as it could be.

And finally, we're still hearing noises that restrictions on exit caps are still on the cards.

Actions: this year it's important for administrators to stay on top of the multitude of new things on the way. Work with your Pension Officer Groups, engage with the LGA and sign up to the many webinars and training sessions that are available, to help you keep on top of everything.
Now is also a good time to think about how you will ensure you have sufficient resource to manage all of the above issues.

Projects: like last year, we're seeing an increase in funds looking at resource and workforce planning to ensure they have the skills, experience, and capacity to meet member needs, now and in future. We encourage funds to look ahead to what the LGPS may look like in the medium to long-term and start to think about skills needs, such as technology and communication and appropriate recruitment and retention strategies. The pressure of delivering all of this alongside the BAU is still a source of challenge (and triumph) for many LGPS Funds. Looking to develop efficiencies in your current processes could alleviate pressure, utilising tools such as process mapping and re-engineering. Alongside these, the multitude of competing undertakings may lead you to consider how you will deliver this work and whether a project structure, with associated monitoring and reporting, would be appropriate to make the implementation process more efficient. We would still encourage funds to leverage prioritisation tools (such as MoSCoW) to identify the key areas where resources should be focused.

Action: review all that you have on the to-do list and find areas where prioritising and working more efficiently could reduce pressure on teams. Spend time looking ahead to the LGPS of the future and how you need to structure your workforce to deliver these.

If you would like to discuss any of these areas further, please get in touch with your usual Hymans Robertson consultant or one of our consultants below:

Catherine McFadyen
Head of Public Sector Consulting
catherine.mcfadyen@hymans.co.uk

Robert Bilton
Partner
robert.bilton@hymans.co.uk

Robbie McInroy
Partner
robert.mcinroy@hymans.co.uk

Iain Campbell
Senior Investment Consultant
iain.campbell@hymans.co.uk

Susan Black
Head of LGPS Governance, Administration & Projects
susan.black@hymans.co.uk

London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk