

Rules & regulations - the LGPS angle



➤ **Muse Advisory CEO, Ian McQuade, reflects on the regulatory pressures facing the LGPS today**

When asked to consider whether the level of change in the rules and regulations around the Local Government Pension Scheme (LGPS) is impacting the running of the scheme, it would be all too easy to say “yes” and move on to the next job. It’s worth, however, picking out a few of the reasons distilled from our own experience of working with the LGPS.

Describing the level of change impacting LGPS arrangements succinctly is not without challenge, perhaps best illustrated by Hymans Robertson devoting seven pages of its monthly update to cover the changes. And that was just scraping the surface. The amount and pace of change impacting these arrangements cannot be underestimated. It’s clear from feedback from our own LGPS clients that dissatisfaction is widespread, with current governance arrangements that seem to just add more burden and time but less value.

To name but three changes, you have the impact of the General Code that came into force on 28 March; the potential changes to the accounting disclosures that could impact reporting for the year ending 31 March 2024; and the ongoing administrative burden that, like all movie villains, only needs to be referenced by a one-word name – McCloud! Changes to lifetime allowances, we’ll leave for another day.

Short-term pain, long-term gain?

Some of the changes proposed could well lead to an easing of the burden,

and some will see improvements in the governance of LGPS arrangements, but these will happen over time. In the meantime, the pressure on those dealing with the schemes increases. Pension administrators are much sought-after. However, whilst there have been significant increases in salary levels across many third-party pension administrators, within the local authority salary structure such increases have not been replicated. We are aware of some teams that have struggled to retain staff.

The double-whammy of loss of experience from the administration team, combined with ever-increasing complexity hardly makes a recipe for success. Everyone is trying their best, however mistakes will happen and, in a world where scheme members are looking for the right answers more quickly than ever, this results in some members making poor decisions. This in turn leads to complaints and requests for compensation, resolution of which distracts administrators from delivering a good day-to-day service.

There is additional pressure on the auditing of pension fund annual accounts. It was hoped that splitting the main local authority annual accounts away from the pension fund annual accounts would make life easier. However the proposed legislative change was not included in the King’s Speech in late 2023, so is unlikely to be brought forward ahead of the next General Election.

Schemes under pressure

With increasing pressure on the

administration teams, compounded by a myriad of other changes, the audit process is being delayed across some arrangements. This adds more pressure as members get concerned about the reasons for the delays, typically resulting in the need for staff to spend time reassuring members and issuing communications.

At the same time, there is immense pressure on the scheme management to effectively govern the other moving parts of the scheme, especially the investment aspects. Pooling has worked in many ways, but now government is wanting more from the pools that have been created to help address societal needs, fund major infrastructure projects, etc.

Solutions

So, what could help alleviate some of these challenges? Two things would help.

Firstly, clarity in terms of the long-term strategy for LGPS arrangements would help everyone, and then having time to put those changes into effect. The same of course applies to many other areas of pensions! Our experience working with both LGPS and private sector schemes on strategy development and improving administration has demonstrated that it is certainly possible to achieve good results tailored for their scheme in an unstable external operating environment. However, like any other sector, this is more straightforward where the environment is more certain.

And secondly, making sure that where best practice exists, this is shared across arrangements to drive broader improvements. The routes to do this are varied and include schemes sharing information directly in addition to using third-party specialists supplying the benefits of their insight drawn from across the market. Whilst we have seen greater openness to sharing, learning about and then implementing best practice, there remains work to do.

➤ **Written by Ian McQuade**