Good morning ladies and gentlemen. I’m delighted to be here and to speak to you this morning in Bournemouth about the Shadow Scheme Advisory Board.

I hope you’ve enjoyed your conference so far.

The title of your conference is "winning the game" and the game we’re seeking to win is a long-term game.

But the near constant government pensions reform and change in legislation means it always feels like there is too much to do and too little time to make the moves necessary to win the game.

That's particularly so for the Local Government Pension Scheme.
This year you have implemented the biggest change in the history of the LGPS – the new scheme is just 80 days old.

The fact that there has been so little coverage of things going wrong is testament to your ability to deal with such significant change.

We have also been busy implementing automatic enrolment, one of the biggest reforms in pensions for a generation.

But arguably the introduction of the new LGPS has been even bigger.

Congratulations on implementing the reform so well.

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We’ve got that right.
But there is more ahead – lots more ahead, in fact.

And that’s what I want to talk to you about today – about the future, and what we have to do to get that right.

Because, let’s face it, we can’t get it wrong.

Too many people rely on us to get it right. And there’s too much money at stake.

But before I look to the future, I want to tell you a bit about what the Shadow Board has been up to.

As you may imagine, we’ve not been sitting on our hands.

**Shadow Board**

Let’s go back to the very beginning.
It has been just under a year since the LGPS Shadow Advisory Board held its first meeting.

When I took on the Chairmanship of the Board I was delighted and honoured to be leading such an important body at such a time.

I was also very aware that we had a large group of people representing the many and varied interests of stakeholders in the Local Government Pension Scheme.

That diverse group has come together in a unified way to provide guidance and leadership to the LGPS. I would like to thank the Board members and secretariat for their hard work and commitment.

I would also like to thank Cllr Philips for chairing the board in its Shadow shadow form.

The Board was given two objectives:
First, to provide advice to the Secretary of State for DCLG on the desirability of changes to the scheme.

That’s about the Board being involved at scheme level.

Second to provide advice to LGPS scheme managers and pension boards in relation to the effective scheme management and administration of the LGPS and its connected schemes.

That’s about the Board being involved at fund level.

Over this crucial period, in which you’ve all been so busy, the Shadow Board has also been very busy, in pursuit of these aims.

**The work of the sub-committees**

In supporting you through the delivery of the LGPS 2014, our fund level objective has occupied much of our time.
Here the Board’s Sub-Committees have been particularly active.

In the important area of administration, the **admin and communications committee** has developed guidance on annual benefit statements for the new scheme.

This is something I know was concerning many funds.

This guidance is available on the Board website and is the first in a range of advice and guidance in this area.

In the area of administration policy we are working closely with DCLG to review the complex and divisive three-tier ill-health arrangements.

This is not a simple task, but we are aiming for recommendations to go to the Minister later this year.
Guidance on governance is also on its way, thanks to the work of the governance sub-committee.

We know that in order to effectively implement the new governance requirements funds will need clear and informative guidance, especially in the area of local pension boards.

We are working with DCLG and TPR and we will produce this guidance for you by this autumn.

4. It is important to focus our attention on those funds who are not performing as well as they could be (based on a matrix of measures) and therefore the Government should be ensuring the implementation of the Shadow Scheme Advisory Board’s recommendations around managing deficits. One aspect of this is ensuring funds have appropriate governance structures with clear lines of responsibility and accountability. Therefore we believe that Government should explore ways to deliver
greater separation between local pension funds and their administering authorities.

The **Value-for-Money and Collaboration** sub-committee has produced a comprehensive list of collaboration initiatives.

This has fed into the call for evidence debate and provides a first port of call for funds looking to work together with others.

In the area of cost management the **Cost management and contributions committee** has set employee contributions bands for 2014-15 and agreed the terms of the scheme cost management process so that funds stay within the 19.5% shared cost ceiling.

Before starting work on a review of investment regulations, with the **Investment and Engagement committee** we went back to basics and asked Counsel what the investment aim of LGPS actually is.
His opinion on the critical issue of fiduciary duty is that we have a responsibility to secure best returns for employers and scheme members.

But we can take into account ethical issues: provided there is no material effect on those returns.

This opinion was published on the Board's website.

Feedback from funds suggests they find this extremely useful in conversations with the many stakeholders and interest groups who seek to influence the direction of investment.

The Committee is now developing a guide on effective engagement with employers in the LGPS to promote effective asset ownership and sustainable long-term investment approaches.
One of my very first discussions with the Minister on the Shadow Board’s work was about data for the LGPS.

Well, when I say it was about data, what I actually mean was that it was about the absence of data – reliable and consistent data that is - for the LGPS.

So the Board got straight to work trying to pull together a common and comparable data set for the Scheme.

We’ve split the work into three tranches, and I think I can safely say we’ve made some pretty decent progress in a relatively short space of time.

First, we’ve collected all 89 annual reports into one place.
Sounds pretty obvious, doesn’t it, that there should be a single repository for all the fund reports. But that’s never existed until now.

So, thanks to all of you for co-operating with our request for information.

I think it’s only fair to tell you it won’t be the last such request, though.

Anyway, that’s phase one done. Phase two gets a bit more difficult. That’s about analysing and publishing aggregated data key at scheme level.

That information will cover:

- membership – eg total number of participating employers, actives, deferreds etc;
- investment performance;
- asset allocations; and
• a combined statement of accounts.

We’re just doing the final sense check on that data. But let me give you a sneak preview of some of the stats:

• For the first time in many years active membership increased in 2013 by 20,000 to a total of 1.72m.

• Numbers of scheme employers continued to rise now up past 9,000 with the average Welsh fund having 46 employers and the average English Met 241.

• The average scheme member was 47 and earned £22,000 per annum.

• The largest pensions committee had 26 members with the smallest at 3 (average 10).

• Over three years to March 2013 the LGPS as a whole returned an annualised 8.5% return against
an index of 7.5%. Keep that in mind for some of my later comments.

So some really interesting stuff there.

Then we get to the really tricky stuff, and that’s developing a set of data that can be used to compare one scheme against another on a consistent basis.

We are working to develop a set of financial and non-financial health indicators that will help us do just that.

I think this is a fantastically important piece of work.

And not just because it satisfies data nerds like me – and possibly one or two of you – who look at this stuff for fun, or who look at it whilst watching the football, or after last night’s result as a distraction from the result.

It’s important because if we don’t have this data:
• we can’t tell who’s doing well and where there’s room for improvement – either at fund level or at scheme level;

• we can’t tell what good looks like and how we develop best practice and improve; and

• we can’t tell who’s delivering value for money and where the cost outliers are.

And that matters because if we can’t tell that story…someone else will tell it for us.

And we know what happens then. We get misleading and de-stabilising media stories that can drive the wrong results.

So, as I say, I think this is a really important piece of work.
My thanks go out to the Scheme Report Working Group and the Value for Money and Collaboration Committee who are doing the heavy lifting on this one.

**Structural reform consultation**

This new common and consistent data will be critical to the delivery of what emerges from the current consultation on structural reform.

In fact, I’d say it’s pretty difficult to arrive at a sensible outcome on the structural reform consultation without it.

The Board has already made an important contribution to this side of the reform process with our analysis of the responses to the Call for Evidence and a report and recommendations to the Minister.

In it:

- We said we felt that better data was needed for an informed decision.
- We recommended a closer look at the potential benefits of passive, and collective investment models but also internal management.

- We made the point that options around improved deficit management were still missing.

- We said that Government should set out a clear timetable for reforms to avoid change being rushed.

In the current consultation, the Board will once again be playing a full part.

This is where we make a difference at the scheme level.

The Board is currently developing its response and recommendations.

So it would be wrong for me to pre-empt what we will eventually say.

But let me share some emerging themes.
Value for money

The first is around a re-orientation of the exam question posed in the con doc.

The Board’s view – and it’s one you’ve heard me say before – is that the focus should be on value for money, not just driving down cost and price.

Costs are important. There’s no escaping that.

But they are only one element of the efficient and effective operation of a local authority fund.

So that’s the first principle – focus on the key issue of value for money. The two things may sit side by side. But they may also push in opposite directions.
The second principle is that we should be very wary of mandation of any kind.

In this context, the Board is particularly concerned about the potential loss of value that might arise for the mandated use of passive management.

The important thing for funds is ensuring the ultimate goal of ensuring that your assets are able to match your liabilities over time.

That has to be the ultimate goal of any pension fund – if you can’t do that, you can’t pay your members.

So a one-size-fits-all approach and a wholesale, mandatory, switch to passive management may not be the right one.

So, the Board will be analysing data and assessing the opportunity cost so we can provided evidenced-based advice to the Minster.
At present we favour more of a comply-or-explain method.

Funds would be required to set out their own asset allocation and the structure to implement it and explain why they have chosen this approach and what it aims to achieve.

**Balancing local circumstances with scale**

We do have to acknowledge, though, that individualism or localism to cater to schemes’ individual circumstances needs to be balanced with the benefits of scale.

For a fund to achieve value for money, it has to invest in line with its own circumstances and requirements.

But we all know that harnessing the power of scale can help drive value for money.
A scheme with nearly £180bn of assets and almost 5 million members has enormous capacity to harness economies of scale and generate better value for money.

And there is considerable evidence to show that larger investment funds or vehicles can drive a better deal with fund managers and use resources more efficiently.

But again, there’s should not be a one size-fits-all approach to finding the answer – or rather answers – to this.

There are lots of different ways to develop and deliver scale solutions. The Board's Value for Money and Collaboration Committee has identified some already.

And of course, there’s lots of good work going on already.
And there’s more to come.

And CIVs can come in a variety of forms for a variety of asset classes. The London CIV has had much attention – but there are other flavours of CIV developing too.

So - let’s let them develop.

Let’s set some parameters around some core standards and floors, and let’s encourage greater working together.

For my money, that would include ensuring here is proper governance of these new structures so they are aligned with the long term interests of investors.

The Board is ready to help in both developing the standards and in encouraging and monitoring closer working.
A theme of what I’ve been talking about is not throwing out the baby with the bath water – in other words, not throwing out what’s already working well.

We know from our own evidence gathering that internal management is where the greatest potential cost savings can be achieved without necessarily driving out performance.

And there are many examples of that among you in this room today.

But that seems to have been forgotten in the current consultation.

So again, let’s not disregard what currently works well.

As I say, central Government should set clear aims and objectives for collective investment.
And then the Scheme Advisory Board should work with funds on developing the different vehicles.

That way you ensure delivery of what the government would like to achieve - greater efficiency within the LGPS - but in way that enables us to take account of the local circumstances of the various funds.

**Deficits**

All the focus has been on the headline grabbing stuff around cost savings and collective investment.

But what about the elephant in the room?

I'm talking, of course, about deficits. They really are the critical issue.

We all know that what the government is most concerned about those is those funds that are struggling.
And it is why the Minister has specifically asked the Board to look at how to tackle deficits.

The Board is, of course, delighted to meet the Minister’s request. And we will be preparing our advice for him over the next few months.

We will be focusing our attention on helping all funds - but especially those that are not performing as well as they could be.

Over the coming months we will be:

- exploring best practice in employer liaison and management;

- developing examples of innovative ways of securing contingent assets; and

- expanding on ways of locking cashflows into deficit recovery.
All of this will be presented as a way of helping funds help themselves.

Our aim is to provide something to the Minister later this Summer.

But whilst we strive for best practice, we also have to recognise that there may come a point when such assistance is just not enough – where funds below a certain level may require some intervention.

So the matrix of measures I referred to earlier by which to assess what 'good' looks like – and what it does not look like – will be crucially important.

This way we can identify those in greatest difficulty and avoid the bleeding of value for the Scheme as a whole.

**Governance in the LGPS**

So there is much for us to do in the future.
But before I leave you today, I’d like to briefly share the latest news on the new requirements for governance in the scheme.

Yesterday Jeff set out the legislative framework for these new requirements but it is regulation and guidance that will finally set us on the path.

Although regulations have not yet been published in draft form I can share with you our latest understanding of what they’ll contain:

- First, local pension boards will be required for each administering authority and a minimum number of 4 members is proposed. There will need to be equal representation between employer and scheme members.

  Whilst councillors will be barred from serving as either employer or scheme member
representatives, they may sit on boards as 'other members'.

However these ‘other’ members may not outnumber the employer and scheme member reps.

I am sure this audience will have some views on those regulations and I am equally sure that DCLG would welcome your comments.

There are a couple of exceptions proposed for the “one board per fund” model.

The first is that administering authorities will be able to merge their pension committees and boards – subject to the permission of the Secretary of State.

The second is set out in the consultation’s covering paper and asks for comment on how regulations could provide for a merged board to look after more than one
administering authority, for example where those authorities discharge their scheme manager functions via a joint committee.

The regulations are set at quite a high level and there will need to be a fair amount of guidance to map out the detail needed to get these boards up and running.

The draft regulations also set out the direction for the Scheme Advisory Board in its statutory form. Taking it out of the shadows.

……..

Over the last year or so I have witnessed at first hand just how much time and effort is put in to supporting the Board and am very grateful for the LGA kindly providing such support while we have been in shadow form.

I am acutely aware, however, that such a situation cannot continue and those LGA employees have other tasks they need to return to.
I am therefore pleased to see that provision has been made in the regulations for funding the Scheme Board.

But I am also very aware that the Board will need to continually prove its value and ensure that every penny we are given is used to the benefit of the whole scheme.

That’s what we intend to do. And with such a full agenda ahead, we will have the opportunity to do it.

And we will do that with one goal, despite our many viewpoints: to ensure the delivery of a sustainable LGPS for members, employers and local taxpayers.

I look forward to working with all of you to achieve that.

Thank you.