

Shadow Advisory Board

April 2014

This is the first edition of the shadow Scheme Advisory Board's (the Board's) regular update for pension funds, members, employers, and all other parties with an interest in the Local Government Pension Scheme (LGPS) in England and Wales. With much to cover at the moment, this is a lengthy update and we hope future updates will provide all the information needed in a briefer form.

The Scheme Advisory Board is a new body which was set up under the Public Service Pensions Act 2013 as a national advisory body for the LGPS in England and Wales. Since mid-2013, the Board has been operating in shadow form. The full Board will be established in early 2015.

Our aim with these regular updates is to keep readers informed about Board activities, what the Board plans to achieve and how it is working with the Government and with LGPS pension funds to ensure the Scheme is run in the best way for members and their employers.

Meeting of the Board 17 March 2014

The last meeting of the Board was held on 17 March 2014. In summary, the Board:

- received an update from the Department for Communities and Local Government (DCLG) on the forthcoming consultation on structural reform in the LGPS;
- discussed the 2012/13 Scheme annual report and the progress that has been achieved on this to date;
- agreed a governance paper prior to the consultation on governance regulations which is due to commence in early April; and
- discussed the practicalities of Board communications and agreed a Board communications plan.

Actions and agreements from the meeting are available [here](#) and further updates on some of the matters discussed are detailed below.

Work programme and communications plan

The Board has now published its work programme and communications plan for 2014 and these are available [here](#). The work programme details the work plans for the Board and its sub-committees over the coming months, whilst the communications plan sets out how the Board plans to make sure that the right people know about the work the Board is doing.

The Board is open to ideas on communicating with various stakeholders and would welcome views on how best it can achieve good, effective communication with a wide range of parties. These should be submitted to the [e-mail address](#) shown at the end of this document.

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Structural reform

At the meeting of the Board on 17 March the Board received an update from DCLG on the forthcoming consultation on options for structural reform in the LGPS. In the course of this DCLG informed the Board that the consultation will last for 12 weeks and that the Government's current plans were for this to commence in April, although we now believe that it is more likely that this will commence in May.

A special meeting of the Board is to be arranged following the commencement of the consultation to discuss the content of the consultation paper and plan the Board's response.

Governance regulations

In early March members of the Board and of the Board's Governance and Standards sub-committee met to discuss governance in the LGPS in advance of the consultation on draft governance regulations which we believe will commence in the coming weeks.

In particular, the meeting was an opportunity for Board and sub-committee members to express their views to DCLG on the matters which will be addressed in the draft regulations, such as the implementation and operation of local pension boards and the roles and responsibilities of such bodies.

A number of principles were agreed at that meeting and a summary of those principles was agreed to by the full Board at its meeting on 17 March. This document can be found [here](#).

Cost management process

The Public Service Pensions Act 2013 introduced a cost management process to be undertaken in the LGPS and the other public service pension schemes periodically. These assessments will be undertaken to review the future costs of the Scheme and ensure that these are in line with agreed targets. In the LGPS such assessments will be undertaken every three years from 2016 alongside the local LGPS fund valuations.

In the LGPS, two processes will be used to assess costs in the Scheme. The 'employer cost cap' process will be undertaken by HM Treasury (HMT), whereas the 'future service cost' process will be the responsibility of the Scheme Advisory Board. Whilst these are both designed to provide an answer to the same question, "how much - at a national level - are future LGPS benefits expected to cost?", there are some important differences in how these will be calculated.

Last month, HMT published regulations and directions detailing how the 'employer cost cap' management exercise will be undertaken. These are available [here](#) on www.lgpsregs.org, along with a HMT policy document setting out some further detail as to how the cost management process will be undertaken in the public service pension schemes.

From the sub-committees

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Administration & Communications

The sub-committee is currently in the final stages of drafting annual benefit statement guidance for the Board to issue to LGPS funds in England and Wales.

One of the sub-committee's next planned pieces of work is to take a detailed look at ill health retirements in the LGPS and make recommendations to the Board as to possible regulatory changes.

Cost-Management & Contributions

The sub-committee has recently been preparing a valuations paper which will explain some of the key concepts of fund valuations and look to summarise, at a national level, the main findings from the 2013 fund valuations. The Board secretariat are currently collating the key data items from the individual funds, and the Board valuations paper will be issued once this data is collated.

The sub-committee is holding a special meeting on 29th April to begin to look at deficit management options in the LGPS.

Governance & Standards

As well as working on implementation guidance for the Pensions Regulator's code of practice to help LGPS pension funds apply this to their own organisations, the sub-committee is also now developing a matrix setting out what governance guidance exists in all aspects of the administration of an LGPS pension fund and, where there are gaps, look to prepare and publish the guidance needed. A working group has been set up to explore these issues in more detail and is due to meet for the first time in early May.

Investment & Engagement

The Investment & Engagement sub-committee has been at the heart of the Board's work in commissioning and publishing the Counsel advice on fiduciary duty in the LGPC. This advice is now available [here](#) with a covering note from the Board.

Further advice has been sought by the sub-committee on some further questions and a meeting has been arranged for 2nd May to discuss the draft advice received.

Value for Money & Collaboration

The sub-committee will work with the Board's annual report working group in the coming months to review the financial indicators which should be included in the Board's 2012/13 annual report. Discussions will begin on these financial indicators in the sub-committee's meeting on 7th May.

In addition, the sub-committee will shortly begin discussing the programme for a Board event planned for Summer 2014 on collaborations in the LGPS.

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Scheme reforms

The LGPS 2014 Scheme reforms have now taken effect in England & Wales. The Scheme reforms bring about some fundamental changes to the Scheme, such as a move to a career average benefits structure. The transition to the new Scheme, and in particular the delay in the finalisation of the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 and the issue of actuarial guidance by the Secretary of State, caused some difficulty for employers and administering authorities.

The Board wishes to express its gratitude to employers and administering authorities in England and Wales in ensuring that the Scheme reforms were implemented with minimal disruption to members.

Councillors' Pensions

The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 detailed the Government's policy on the future accrual of councillors' pensions in England and Wales. The Regulations state that from the end of a councillor's current term of office in England, a councillor's active participation in the pension scheme will cease. At its last meeting the Board expressed its disappointment with this decision to DCLG and asked that this be communicated to the Minister. Councillors in Wales are not affected by the change and can continue to participate in the LGPS.

Elsewhere in the LGPS...

Please see the latest version of the LGPC Secretariat's latest Bulletin for further information on other matters relating to the LGPS. The latest Bulletin is available [here](#).

In the coming month

- The DCLG and Cabinet Office consultation detailing its preferred options for reform of the LGPS's investment structures is due to commence following last year's Call for Evidence.
- DCLG will commence a consultation on governance arrangements and pensions protection in the LGPS. This consultation will contain draft governance regulations which will form a new part 3 of the LGPS Regulations 2013.
- Meetings of the Board and its sub-committees in the coming month:
 - Special Cost Management & Contributions - 29th April
 - Investment & Engagement - 2nd May
 - Value for Money & Collaboration - 7th May
 - Administration and Communications - 8th May
- In addition, the Scheme annual report working group meets on 7th May to discuss possible amendments to the CIPFA annual reports guidance with a view to greater comparability between pension funds being achieved.

Contact us

This update is distributed by the Board secretariat. If you have any questions or queries on the content of this, please email cornelius.hargrave@local.gov.uk.

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