

Shadow Advisory Board

February 2015

It has been a busy few months in the LGPS in England & Wales, not least with the finalisation of governance regulations meaning that administering authorities are now able to proceed with the task of setting up their local pension boards in order that these may be established by 1st April 2015. The finalisation of these regulations also meant that the shadow Scheme Advisory Board (SSAB) were able to issue both its Local Pension Board (LPB) guidance and a template terms of reference document, which both now reside [here](#) on www.lgpsboard.org. More detail is outlined on the publication of these documents further below.

It has also been a productive time at SSAB level in other areas, with the publication of the second counsel's opinion that the SSAB has sought since it was established in Summer 2013 [published during January](#), and the release of [two briefing notes on the cost control process](#), one drafted for administering authorities and the other for the benefit of Scheme members and employers. Most significantly for the coming period, the SSAB chair Joanne Segars also sent a letter to all pension funds in January outlining the work undertaken to date on the SSAB's deficit management project and outlining the SSAB's work plan to take this forward during 2015.

Whilst work within the SSAB will be continuing in the coming months, not least on the deficit management project mentioned above, attention will be turning to the establishment of the statutory Scheme Advisory Board and the transition from the SSAB. Discussions were held at the SSAB on this topic at its February meeting, in particular in respect of the statutory Scheme Advisory Board's funding, and further detail on this is outlined below.

Meeting of the Board 6th February 2015

At its meeting on 6th February 2015, the SSAB:

- agreed to write to the Chief Secretary to the Treasury to outline the concerns of the LGPS community with regards the Scheme's ongoing participation in the public sector transfer club, in particular due to the cost burden that consequentially falls on the Scheme,
- agreed to undertake a dry run of the statutory Board's LGPS- specific cost management process, the Future Service Cost (FSC) process, in order to attain an accurate benchmark for the first live calculations of this figure in 2016, and
- in respect of transfers to defined contribution (DC) schemes from April 2015, noted the ongoing lack of clarity given that overriding legislation was still to be finalised. The SSAB agreed to monitor developments closely in order that the LGPS is best prepared for the anticipated increase in demand for transfers to DC schemes upon the new flexibilities being implemented.

Actions and agreements from the meeting will be made available on the Shadow Advisory Board website in due course with further details on some of the matters discussed outlined below.

Shadow Advisory Board

Shadow Scheme Advisory Board event 24th April 2015

The SSAB will hold its first event for the LGPS community on 24th April 2015 at [the LGA's offices in London](#). The event will have a special focus on the SSAB's deficit management project, with PwC's Mark Packham amongst the speakers. PwC were commissioned last year by the SSAB to make recommendations on deficit management in the LGPS and these recommendations informed the Board's work plan on deficit management which was published earlier this year (further detail outlined below).

However, this will not be the only focus and the event will be an opportunity for those within the community to see what the SSAB and its sub-committees have achieved since its set up and see what the priorities will be for the future. In addition, it is hoped that the event will be a platform for us to launch the 2013/14 Scheme annual report for the LGPS, building on the work undertaken with the publication of the first report of this type late last year for the 2012/13 Scheme year.

A firm agenda and details of how to book will soon be circulated in order that people are able to register to attend this free event. We welcome attendees from all those with an interest in the LGPS - whether those working within pension funds, pensions committee members or Scheme employers.

Establishment of statutory Scheme Advisory Board for the LGPS

The SSAB are delighted to have had the opportunity over the past 20 months to shadow the work of the statutory Scheme Advisory Board prior to its formal establishment later this year. Certainly, the work that we have undertaken suggests that there is plenty to be done and that the statutory Scheme Advisory Board will have a busy agenda at its first meeting later this year.

The SSAB are delighted that [the Minister has agreed](#) that the SSAB may continue in its work until such time as the statutory Board has been established. This means that we will be continuing in our meetings post-April until such time as the statutory Scheme Advisory Board is able to meet for the first time.

At the SSAB's February meeting, discussions were held on the establishment of the statutory Board with the SSAB keen to ensure that the valuable experience of setting up a shadow Board is built upon in establishing the statutory Board. A fundamental issue will be the funding of the statutory Board which will be funded from levies payable by each of the administering authorities. Based on the work undertaken to date, the SSAB has submitted a range of budget options to the Minister for his consideration, and will shortly be submitting a work programme for 2015/16 in order to outline what the statutory Board could achieve with the funding.

Additionally, the SSAB has proposed that the funding levy be payable by administering authorities using bands based on active membership of the previous year's SF3 data collection exercise (so, for 2015/16, based on active membership as at 31st March 2015). Upon the budget being finalised, DCLG will write to all authorities to confirm the total payable for each authority.

Shadow Advisory Board

In respect of the SSAB membership, we understand that DCLG will be advertising for a Chair for the statutory Advisory Board in due course with statutory Board members themselves to be appointed by DCLG at such time as DCLG have established the Advisory Board. Scheme Regulations recently published state the Advisory Board shall consist of 'a Chairman and at least 2, and no more than 12 members appointed by the Secretary of State'.

Of course, the establishment of the statutory Board, including appointments and budget setting, comes at an inopportune time in the Parliamentary calendar with the general election being held in May 2015 and purdah beginning at the end of March. Whilst all parties will be seeking for the statutory Advisory Board to be established as promptly as possible, it is possible that the general election, and the possibility that a new Minister responsible for the LGPS will be appointed following this, may cause delays in this process.

Deficit Management in the LGPS

Many of you will have seen the letter Joanne Segars, chair of the SSAB, [sent to administering authorities in January](#) confirming that the SSAB has commenced a deficit management project and outlining its work plan for this to be taken forward in 2015/16.

At a high level, the work plan included the following main points:

- That the disclosure of funding levels calculated on a comparable basis using standardised assumptions would provide a clear overall picture of the deficit across the Scheme and provide a platform from which better deficit management in the LGPS could be pursued.
- That efforts should be made to promote the use of both covenant checks and available security arrangements where these are appropriate in order that funds are best protected from the risk of employers becoming insolvent or becoming unable to meet their obligations.
- That guidance should be given to promote the early targeting of cessation deficits in the run up to employer exits. Changes in regulations to allow more flexible exit arrangements to be undertaken should also be considered.
- That disclosure of funding levels calculated on a consistent basis would allow for more reliable comparison of funds, which could be undertaken using a range of financial and governance metrics. This would aid the process of identifying where help and intervention may be needed.
- That the development of guidance on other matters such as the setting of deficit recovery periods, the requirement for stability in employer contribution rates and the use of employer contribution floors should also be considered.

The first stage of the work plan will be taken forward at the SSAB's 23rd March meeting where it will discuss making recommendations to DCLG on making changes to the Scheme which would improve deficit management generally and in particular would widen the options available to funds in managing their employers' deficits.

Shadow Advisory Board

Further detail on this project will be provided at the SSAB event of 24th April and we anticipate that this project will be a priority of the statutory Scheme Advisory Board when it's established later this year.

Governance regulations & publication of Local Pension Board (LPB) guidance

The forthcoming establishment of LPBs in the LGPS has been a hot topic in the Scheme in the past year. With the finalisation of governance regulations in January, administering authorities in England & Wales now have the information needed in order that they may commence with the time pressured task of establishing these bodies by 1st April 2015.

To seek to assist funds with the establishment of LPBs, administering authorities will be aware that the SSAB published guidance on the establishment of LPBs and a template terms of reference document shortly after the finalisation of the governing regulations.

Pulling together these documents involved the time and effort of a wide range of stakeholders, and the SSAB are grateful for all the assistance received in the compiling of these resources, not least from those who responded to the SSAB's Autumn 2014 consultation on the guidance.

Q&As to assist administering authorities in the use of the guidance and to answer questions that are often raised concerning LPBs are also now being finalised and when published will be available [here](#) on <http://www.lgpsboard.org/>.

Ongoing developments to the Scheme Annual Report

Following the publication of the first national Scheme report for the LGPS late last year, work is well underway on the 2013/14 annual report which is due to be published in the coming month or two.

Looking ahead to 2014/15 and beyond, one of the areas in which the Scheme report will be developed will be the inclusion of comparable data sets on a fund-by-fund basis. The development of comparable data sets at fund level as well as Scheme level was a key part of the recommendation by Lord Hutton in his March 2011 report and is therefore a fundamental part of the plans to develop a Scheme report that may stand as a single source of information on the state of the LGPS.

To ensure that the process for gathering these comparative data sets works at a practical level, and that the indicators themselves give an accurate impression of what is happening within administering authorities, the scheme report working group of the SSAB will shortly be writing to all administering authorities to ask for volunteers to participate in a pilot of the process. This will be an opportunity for administering authorities to feedback their experiences and to shape the final framework used in the report. We would therefore be very grateful for those interested in this pilot to come forward upon the letter being issued.

From the sub-committees

Administration & Communications

Following previous discussions that amendments to the Scheme's ill health retirement provisions may be desirable for a number of reasons, GAD have now been given the go ahead to cost possible reforms to the ill health retirement process in order that the cost

Shadow Advisory Board

implications of options for reform are better understood. Once this GAD analysis is received, the sub-committee will consider which options should be considered by the SSAB for recommendation to DCLG.

Cost-Management & Contributions

At its February meeting, the sub-committee had a productive discussion on the assumptions which should be adopted for:

- a) the baseline calculations for the statutory Scheme Advisory Board's LGPS-specific cost control process, and
- b) the standardised funding level calculations which the SSAB has committed to undertake as part of its deficit management project.

Following agreement being reached in respect of most of the items of discussion, the SSAB agreed the sub-committee's recommendations as to the assumptions to be adopted at its 6th February meeting. The sub-committee will continue their discussions on the remaining assumptions to be agreed on the standardised funding level calculations at its meeting in March.

Governance & Standards

Following the recent publication of the LPBs guidance which has been the sub-committee's focus in the last six months, the sub-committee reviewed draft Q&As on the establishment of LPBs at its February meeting prior to these being published on the website, where they will shortly be available [here](#) on <http://www.lgpsboard.org/>.

The sub-committee also agreed that it would be desirable to have a platform to share local experience on the establishment of LPBs, and discussed the possibility of developing a webpage on the SSAB website to contain all LPB guidance and linking to administering authorities' individual webpages containing information on their LPBs. The sub-committee hope to take this forward in the coming months as more information becomes available.

Investment & Engagement

The Investment & Engagement sub-committee met in early January and had positive discussions on means via which the Scheme could encourage collective engagement with those organisations that the LGPS invests in, in order that the sector may better the value that the Scheme has in those stockholdings.

The sub-committee also had initial discussions on developing knowledge and understanding guidance for pensions committee members in order to assist administering authorities in the process of training their committee members and in order to aid the development of a high standard of knowledge and understanding across the LGPS amongst those with responsibility for the investment of the Scheme's assets.

The sub-committee hope to take both matters forward in the course of the 2015/16 year.

Value for Money & Collaboration

Shadow Advisory Board

Fruitful discussions were held at the sub-committee's December meeting, as the sub-committee brainstormed potential options for a future work plan for the LGPS on matters relating to value for money. Discussions outlined that future work could include:

- the publication of a collaboration guide providing case studies and detailed information on the range of collaborative opportunities now available in the LGPS,
- a review of the currently available collaborations in the LGPS, with consideration as to where further collaboration could be developed, and
- the development of value for money best practice guidance providing guidance to administering authorities on matters that could be included in procurement contracts, from administration to investments, in order that the Scheme may achieve better value for money from its procurements.

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](#).

Coming up

- The national Scheme report for the 2013/14 Scheme year is due to be finalised in the coming months and when published will be accessible on www.lgpsboard.org.
- The Shadow Advisory Board will hold their first event for the LGPS community on 24th April 2015 in the Local Government Association's offices in Westminster.
- Meetings of the Board and its sub-committees in the coming period:
 - Investment & Engagement - 11th March 2015
 - Shadow Advisory Board - 23rd March 2015
 - Cost Management & Contributions - 30th March 2015

Contact us

This update is distributed by the Board's Secretariat. If you have any comments or suggestions on the content of this, please email cornelius.hargrave@local.gov.uk. An archive of the Board updates previously published is available [here](#).