

# Shadow Advisory Board

July 2014

Shortly after the issue of the last Shadow Advisory Board ('Board') update in April, the Government commenced its consultation on reforms to the investment structures of the LGPS, *Local Government Pension Scheme: Opportunities for Collaboration, Cost Savings and Efficiencies*. The Board published its response to this consultation earlier this month, further details of which are set out in this update.

In addition, a further consultation commenced in June on draft governance regulations and the Board held a special meeting to discuss these draft regulations on 28<sup>th</sup> July the outcomes from which will form the basis of the Board's response to this consultation, as discussed further below.

## Meeting of the Board 9<sup>th</sup> June 2014

A full meeting of the Board was held on 9<sup>th</sup> June 2014. In summary, the Board:

- discussed its plans for responding to the Government consultation *Local Government Pension Scheme: Opportunities for Collaboration, Cost Savings and Efficiencies*;
- had the opportunity to express its views to both DCLG and the Cabinet Office on the consultation, in particular its concerns regarding a one-size-fits-all approach, and the timescales which the Government plans to adopt;
- held an initial discussion on deficit management in the LGPS and agreed to set up a deficits working group of the Board to look into this further; and
- received an update from DCLG on governance and pensions protection.

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

## Structural reform

Earlier this month, the Board responded to the Government's consultation *Local Government Pension Scheme: Opportunities for Collaboration, Cost Savings and Efficiencies*.

[The response](#) sets out the Board's views on the two main strands to the consultation document, namely that a) increased investment via passive vehicles could significantly reduce investment fees and b) increased use of common investment vehicles (CIVs) could result in economies of scale benefits for the LGPS. The response states:

- That a 'comply or explain' approach should be adopted in respect of passive investment, thus allowing for those funds who consistently outperform the market to continue to invest this way, but additionally providing for intervention where performance doesn't meet the required standards.
- That collective investment would be a positive step, but the number of CIVs should not be artificially limited to one or two, and that CIVs should be allowed to grow organically, but with care taken that these are of sufficient size to ensure economies of scale are realisable.

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The Board understands that DCLG, Cabinet Office and HM Treasury will now be working together to agree a preferred route forward for the reforms. We look forward to hearing the Government's more detailed plans for investment reforms later in the year.

## Governance regulations

In June, DCLG commenced a consultation on amending LGPS Regulations for the Scheme in England & Wales in respect of Scheme governance arrangements.

The Governance & Standards sub-committee held initial discussions on the draft regulations at its meeting in late June. These discussions focussed on the aspects of the regulations which relate to the administration of the Scheme and, in particular, the establishment, operation and work of local pension boards.

In addition, the Board held a special meeting on 28<sup>th</sup> July to discuss the consultation and, in particular, with the establishment of the statutory LGPS Advisory board coming up, what can be learned from the Shadow Board from its first year of operation to assist in the set up the full, statutory Board.

The Board's response to the consultation, covering both the matters relating to local pension boards and the matters relating to the LGPS Advisory Board will be submitted to DCLG prior to the closure of the consultation period on 15<sup>th</sup> August and the response will be made available on [www.lgpsboard.org](http://www.lgpsboard.org) shortly thereafter.

## Deficits Working Group

At the outset of the consultation on investments reforms, the then Minister for Local Government, Brandon Lewis, sent a letter to the Board chair Joanne Segars, recognising the concerns the Board had raised in its [January report](#) regarding the implications for investment reforms on fund deficits.

In that letter, the Minister asked the Board to make innovative proposals on the management of deficits in the LGPS and, at the Board's June meeting, the Board agreed that a deficits working group be set up to look at this topic in more detail.

The deficits working group met for the first time in July 2014 and agreed that a specialist piece of work be commissioned to review deficits in the LGPS with a view to making recommendations to the Secretary of State later in the year. Work will commence on this in the coming month, and the Board plan to review the findings of this at its meeting on 15<sup>th</sup> September.

## 2013 Valuations Report

In June, the Board published a report on the 2013 fund valuations undertaken in England & Wales. Two versions of the report were published, the [Summary](#) version providing a brief overview of the 2013 valuations results with a short background to valuations in the LGPS, with an [In Detail](#) version expanding on this to provide further information as to how and why fund valuations are undertaken.

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In addition, the majority of [2010](#) and [2013](#) fund valuation reports for LGPS funds in England & Wales are now available on the Board website [www.lgpsboard.org](http://www.lgpsboard.org), the first time these have been centrally located as a publicly available resource.

## Annual Benefit Statement Guidance

Following the work of the Administration & Communications sub-committee on this topic, the Board has now published its guidance on the publication of career average annual benefit statements by administering authorities in England & Wales for the years 2014/15 and beyond. The guidance also includes a section on the publication of 2013/14 statements as the Scheme transitions from a final salary to a career average benefit structure. This guidance is available [here](#) on the LGPS Board website and [here](#) on the LGPC website, [www.lgpsregs.org](http://www.lgpsregs.org).

## Scheme Annual Report

The 2012/13 Scheme report will shortly be published. The publication of this report will mark the first time a complete, aggregated annual report has been published for the LGPS in England & Wales. The report will be made available online both as a series of webpages and in PDF format and is based on the individual 2012/13 reports of funds in England & Wales which have been collated and analysed by the Board Secretariat.

Later in the year, the Board also plans to publish a matrix for comparison which will compare individual funds as at the end of the 2012/13 Scheme year based on agreed financial and non-financial indicators.

## From the sub-committees

### Administration & Communications

Following a sub-committee paper on ill health retirement going to the Board meeting in June, the Board has asked the sub-committee to shortlist five or six options for possible revisions to the regulations governing ill health retirement and work with GAD to establish the costs of these varying options. Work will continue on this at the sub-committee's next meeting on 4<sup>th</sup> September.

The sub-committee has also had initial discussions on a future piece of work to draft Board guidance on a minimum standard for data cleansing.

### Cost-Management & Contributions

A meeting of the sub-committee was held on 3<sup>rd</sup> July at which the sub-committee discussed the assumptions to be used in the Board cost management process. The sub-committee agreed that the 2013 baseline of the Board's Future Service Cost process adopt an assumption that 65% of the maximum amount is commuted by LGPS members upon retirement. This differs from the figures which will be used in the HM Treasury Employer Cost Cap process which are based on a public service pension scheme-wide assumption that only 42% of the maximum amount is commuted to lump sum.

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## Governance & Standards

With the forthcoming new governance arrangements in the LGPS, a governance working group of the sub-committee is currently drafting Board guidance to aid administering authorities in the practical application of the new governance regime, and to assist in the implementation of the Pensions Regulator's code of practice no. 14 in an LGPS context. It is planned that a form of draft guidance will be reviewed by the sub-committee at its meeting of 20<sup>th</sup> August and then by the full Board at its meeting in September.

## Investment & Engagement

Following the publication of the Queen's Counsel advice received by the Board on fiduciary duty in the LGPS, the Board sought a further Counsel opinion on the ultimate guarantor of the LGPS, which has been under review by the sub-committee and it is planned this draft advice will go to the next full Board meeting which will be held in September.

The last meeting of the sub-committee also saw a discussion on engagement in the LGPS, helpfully assisted by the sub-committee representatives from LAPFF who set out the work they undertake on behalf of their member funds.

## Value for Money & Collaboration

At its meeting in May, the sub-committee reviewed and agreed initial high-level financial indicators which would form the basis of a matrix for comparison to be compiled and published alongside the Scheme annual report. The sub-committee will be working with the scheme report working group to establish the detail of these indicators to ensure that these can be consistently applied and give an accurate impression of the financial strength of individual LGPS funds.

In addition, discussions will be continuing within the sub-committee on the programme for a future Board event on collaborations in the LGPS.

## **Elsewhere in the LGPS...**

Following the Government re-shuffle in mid-July and Brandon Lewis' promotion to Minister of State at the Department for Communities and Local Government, the new Minister for Local Government, responsible for the LGPS, is Kris Hopkins, MP for Keighley in West Yorkshire. The Board looks forward to working with the Minister in the months ahead and will be seeking a meeting with the Minister in the near future.

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 DCLG consultation on draft governance regulations will close on 15<sup>th</sup> August and the Board will be submitting its response to this in the coming weeks, which will be made available on [www.lgpsboard.org](http://www.lgpsboard.org).
- The Board will formally commission a piece of work on deficit management in the LGPS for review by the deficits working group and then submission to the Board at its meeting on 15<sup>th</sup> September.
- Meetings of the Board and its sub-committees in the coming period:

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- Scheme annual report working group - 8<sup>th</sup> August
- Governance & Standards - 20<sup>th</sup> August
- Administration & Communications - 4<sup>th</sup> September
- Cost Management & Contributions - 4<sup>th</sup> September
- Deficits working group - 4<sup>th</sup> September
- Shadow Advisory Board - 15<sup>th</sup> September
- Investment & Engagement - 18<sup>th</sup> September

## 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](mailto:cornelius.hargrave@local.gov.uk). An archive of the Board updates previously published is available [here](#).