

# Shadow Advisory Board

## November 2014

This update from the Shadow Scheme Advisory Board (the Board) focusses on the pressing topic of governance, and in particular the set-up of local pension boards (LPBs), which will be a major focal point for funds between now and April 2015.

Following the commencement of the Government consultation on draft governance & cost control regulations in October 2014, *Better Governance and Improved Accountability in the Local Government Pension Scheme*, the Board commenced its own consultation on draft governance guidance which has been drafted to assist administering authorities in the creation and operation of LPBs. The consultation documentation is available on the [Board consultations](#) page of [www.lgpsboard.org](http://www.lgpsboard.org).

Further information on the Board's plans to assist funds in the implementation of the new governance framework that will take effect in April 2015 is provided below.

### **Meeting of the Board 15<sup>th</sup> September 2014**

The last scheduled meeting of the Board was held on 15<sup>th</sup> September 2014. In summary, the Board:

- Received an update from the Department for Communities and Local Government (DCLG) on governance, cost control, pensions protection and structural reform.
- Held an initial discussion in respect of a draft Counsel opinion that has been produced on the financing of the LGPS.
- Considered the possible impacts on the LGPS of the Budget reforms that will take effect in April 2015 prior to further planned discussions on this topic at the Board meeting in December. Upon a greater understanding of the Government's plans for the governing legislation, the Board hope to issue guidance that will assist administering authorities in dealing with the issues created by transfers out to defined contribution schemes from April 2015.

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

### **Draft governance regulations & draft LPBs guidance**

#### ***Board response to governance regulations consultation - August 2014***

In August the Board responded to DCLG's consultation on amending LGPS Regulations for the Scheme in England & Wales in respect of governance. The response is available [here](#) on [www.lgpsboard.org](http://www.lgpsboard.org). The main points outlined in the Board's response are as follows:

That in respect of the Scheme Advisory Board (SAB):

- There are fundamental questions for which clarity is needed from the Secretary of State. These include clarification as to the legal structure of the body, its route of funding and the level of consistency which is envisaged between the LGPS advisory boards and those of the other public service pension schemes.

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- Regulations should specify the constituent groups which will make up the membership of the SAB.
- Members of the SAB should be appointed by the Secretary of State.
- Regulations should allow for a maximum of 3 non-voting co-optees to be appointed to the SAB, at least one of which should be a practitioner representative

That in respect of Local Pension Boards (LPBs):

- Regulations should not allow for the control and establishment of an LPB by the committee or officer with delegated authority for the administering authority function.
- In respect of regulation 106(5), the SSAB supports the second option (discretion for the administering authority) in the establishment of LPBs.
- Councillors should be allowed to sit on LPBs as employer representatives.
- The proposed wording of regulation 107(2)(b) may be too restrictive for scheme members in requiring "experience and capacity" for pension board members, and that this would be less prohibitively expressed as "scheme member or person having relevant experience and capacity".

## ***October 2014 consultation "Better Governance and Improved Accountability in the Local Government Pension Scheme"***

The Government commenced a further consultation on draft governance regulations on 10<sup>th</sup> October 2014. The current consultation also includes draft cost control regulations and together the governance and cost control regulations will form the new Part 3 of the LGPS Regulations 2013. A paper summarising the main differences between the content of the June 2014 draft governance regulations and the regulations issued for consultation in October 2014 is available [here](#).

The Government consultation period closes on 21<sup>st</sup> November 2014 and the Board's response to this consultation will be made available on [www.lgpsboard.org](http://www.lgpsboard.org) when published.

## ***Consultation on draft LPB guidance***

Early in its discussions on the establishment of LPBs, the Governance & Standards sub-committee recognised the need for guidance to assist administering authorities in the establishment of these bodies.

A governance working group was set up and met for the first time in June to look at the content of the guidance in detail, and in early August the Board appointed the legal firm Eversheds to undertake the drafting of the first version of this guidance. The Board are grateful for all the assistance that has been provided by Eversheds since then.

The Board [commenced its consultation](#) on draft governance guidance on 17<sup>th</sup> October 2014 and welcome responses from all parts of the LGPS community as we seek to issue guidance that is of most practical benefit to those administering authorities required to establish LPBs by April 2015.

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Responses via email are preferred and should be submitted to [liam.robson@local.gov.uk](mailto:liam.robson@local.gov.uk) by the end of 21<sup>st</sup> November 2014.

## Deficit Management in the LGPS

At the outset of the May 2014 consultation *Opportunities for collaboration, cost savings and efficiencies*, the then Minister for Local Government, Brandon Lewis, [wrote to the Chair of the Board](#) and asked that the Board make innovative proposals on deficit management in the LGPS. Since then, the Board has sought to undertake to assist the Department in this matter by establishing a deficit working group which is considering a wide range of options for better deficit management.

The Board is continuing its discussions with a view to making formal recommendations to DCLG on this crucial topic. In support of these discussions the working group has been collating the views of stakeholders and developing background data. At a special meeting of 29<sup>th</sup> October the Board reviewed progress to date and agreed that further work be undertaken prior to making any formal recommendations to DCLG. It agreed that any such recommendations should recognise that a one size fits all approach would not be appropriate and that the differing situation and requirements of individual funds must be a key consideration.

The Board is keen to ensure that it makes recommendations which are effective in managing deficits but also provide the flexibility needed by funds and employers in the context of financial constraint and a rapidly changing employer make-up of the Scheme.

Full information in support of the Board's recommendations on deficit management will be published once those recommendations are finalised and submitted to DCLG.

## LGPS 2012/13 Scheme Annual Report

On 4<sup>th</sup> November, the Board published the first Scheme-wide report of the LGPS in England & Wales. The report has been collated from the content of the individual funds' 2012/13 published accounts, and in summary the report demonstrates that:

- The total membership of the LGPS is 4.8m people.
- Some 9,340 employers participated in the LGPS across England and Wales.
- The average age of an active LGPS member is 47 and the average salary is £22k.
- The average pensioner is age 67 and average pension is £5,000 per year.
- The LGPS had a positive inward cash flow of £12bn that exceeded its current outgoings of £9bn.
- The LGPS's total assets under management of £180bn make it one of the largest funded pension schemes in the world. The average investment return on these assets was +12.5% after fees for 2012/13. 41% of LGPS funds are in pooled investment vehicles and 38% in equities, the remaining 21% being split across other asset classes.

The full report is available as a series of webpages in the [Scheme Annual Report](#) section of the Board website and is introduced by remarks from the Board Chair, Joanne Segars, along

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with a Ministerial Statement from the local government minister with responsibility for the LGPS, Kris Hopkins MP.

The scheme report working group of the Board which has met periodically in recent months to assist the Secretariat in the design of the report met again on Friday 7<sup>th</sup> November in order to continue its planning for the 2013/14 scheme report.

## From the sub-committees

### Administration & Communications

The sub-committee continued its review of the ill health retirement provisions at its meeting of 4<sup>th</sup> September. Following this meeting, the Board secretariat has been liaising with DCLG to arrange for GAD to cost the reform options discussed. Once the costings have been received the sub-committee will meet again to decide which options for reform to recommend for consideration by the Board.

The sub-committee also continued its discussions with respect of data. It was agreed that a future piece of guidance for administering authorities on data may be desirable, in particular with regard to the aspects of the forthcoming Pensions Regulator code no. 14 on public service pension schemes which relate to data.

### Cost-Management & Contributions

The sub-committee met on 7th November and reviewed draft communications for the cost control process for members, employers and administering authorities. These communications will be finalised and issued by the Board upon the cost control regulations being made and laid by DCLG.

The sub-committee also received an update from the Government Actuary's Department (GAD) in respect of their calculations of the HM Treasury employer cost cap (ECC). The figure calculated by GAD in this process will be the employer cost targeted by the HM Treasury process when the cost of the Scheme is first reviewed after the 2016 valuations.

### Governance & Standards

Much of the sub-committee's time has been taken up in considering the content and delivery of the draft LPB guidance, as set out more fully earlier in this update.

However, at the sub-committee's meeting of 15<sup>th</sup> September, an initial discussion was held as to the desirability, and possible methods, of achieving more separation between pension funds and the respective lead authorities. It was agreed that a working group be established to draft summary notes of the available options for future presentation to the sub-committee.

### Investment & Engagement

The last meeting of the sub-committee took place on 18<sup>th</sup> September, at which the sub-committee reviewed the [Law Commission report on fiduciary duties](#), which makes specific recommendations on possible amendments to the LGPS Investment Regulations. The sub-committee will consider these further within the overall context of its plans to make recommendations to DCLG regarding possible amendments to the Scheme's investment regulations.

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It was also agreed that a small working group be established to consider engagement in the LGPS more fully with a view to agreeing a form of wording via which the regulations could mandate for all pension funds in England & Wales to engage with the organisations they invest in.

## **Value for Money & Collaboration**

Following previous discussions at sub-committee level with respect of an event on collaborations in the LGPS, a brief discussion was held on this topic at the Board meeting of 15<sup>th</sup> September. The Board agreed that hosting such an event would be positive for the LGPS and asked that the sub-committee continue its discussions with a view to arranging this as soon as is practicable. The sub-committee plan to meet in the near future in order to take this matter forward.

## **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 Board will submit its response to the Government consultation *Better Governance and Improved Accountability in the Local Government Pension Scheme* by its closure date of Friday 21<sup>st</sup> November.
- Responses are requested to the Board's consultation on governance guidance by the end of Friday 21<sup>st</sup> November.
- Meetings of the Board and its sub-committees in the coming period:
  - Governance & Standards - 26<sup>th</sup> November 2014
  - Shadow Advisory Board - 8<sup>th</sup> December 2014
  - Investment & Engagement - 8<sup>th</sup> January 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](mailto:cornelius.hargrave@local.gov.uk). An archive of the Board updates previously published is available [here](#).