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Dear Joanne

I am writing to thank the Shadow Scheme Advisory Board for the invaluable work you have undertaken so far to support Local Government Pension Scheme reform. Your contribution has been wide ranging and varied; from securing Counsel's advice on key matters of fiduciary duty, to bringing together stakeholders to assess the outcome of the 2013 valuations. With the recent implementation of the new Scheme on 1 April and the forthcoming publication of consultations on both structural reform and governance; I see this as an opportune moment to write to you on the subject of your role going forward.

I am grateful for your report summarising the call for evidence responses and setting out your recommendations. I have included a separate Annex where I respond to this report more fully and comment on each of your recommendations in turn. As you rightly highlight in your report, very few responses to the call for evidence set out ideas for managing deficits in a different way. Although the consultation focuses more on opportunities to reduce Scheme investment costs whilst having regard to performance; deficit reduction remains a priority. I am therefore very keen to see the Board act on its sixth recommendation and undertake further analysis of alternative options for managing deficits. I look forward to receiving any innovative proposals on this, ideally before the summer recess.

Your report also highlights that the Scheme data is currently insufficient to guide appropriate decision making, and I am grateful for the work you have undertaken so far to help address this and towards developing a single Annual Report for the Scheme. I believe there remains a key role for the Board in continuing with this work and in establishing an agreed baseline of data and measurements; in keeping with Lord Hutton's 17th recommendation that data transparency should be improved. I have asked my officials to support you in this to ensure more comparable data is available in the future. Building on this work, I also feel there is scope for you to support the Department as we look to develop a framework for assessing fund performance and valuation reports. This comparative analysis should enable us to better understand the investment performance and appropriate risk levels of individual fund authorities on a robust and objective basis.

Additionally, I am grateful for the help the Shadow Board has given on the development and preparation of draft regulations on Scheme governance. I was pleased to learn that you had met last month specifically to discuss the terms of the forthcoming consultation. The

agreement reached on a number of key issues will now help us to go forward to consultation with the broad support of the Shadow Board and the Scheme as a whole. In the longer term, once the governance regulations have been introduced and local boards are established, I see an important function for the Board as a centre of excellence; facilitating and sharing best practise across the local boards and the Scheme. Moreover, as the legislation develops on Pensions Protection and Fair Deal principles are implemented, I envision the Board building on their role as a centre of excellence by helping to ensure Scheme employers abide by any new arrangements that are put in place.

However, it is not just governance arrangements that will need to be translated into regulations in the coming months. I am aware of the need for us to bring forward Scheme regulations on cost management reflecting both the Treasury's Direction on valuations and cost management; and the new Scheme's internal arrangement for managing costs. I believe there is a role for the Shadow Board here to work alongside my officials as we transpose Treasury's direction into Scheme regulations. By the same token, the Department will be looking to adapt the Pensions Regulator's code of practise into Local Government Pension Scheme specific guidance in the coming months; where I feel the Board's support could also be valuable.

I am keen for the Shadow Board to continue to focus on these important and challenging areas of work within its current capacity. I would also encourage you to let me know of any additional areas of work where you feel your input could be beneficial. As I'm sure you will appreciate, the roles and responsibilities for the Shadow Board, as well as the issue of funding, will be revisited as the governance regulations develop following the consultation. However, the operation and experience of the Shadow Board and its sub-committees over the past nine months will be invaluable in helping us to come forward with suitable draft regulations.

I would like to thank you again for the hard work you have undertaken, and would be very happy to meet and discuss further the areas of work raised in this letter, if you would find this helpful.

A handwritten signature in black ink, appearing to read 'Brandon Lewis', with a long horizontal flourish extending to the right.

BRANDON LEWIS MP