

# Scheme Advisory Board

This note summarises the meeting of the Scheme Advisory Board on the 10<sup>th</sup> October 2018. Full details of the meeting and agenda papers can be found at [www.lgpsboard.org](http://www.lgpsboard.org).

## **Cost Cap**

Board members were provided with a summary of the statement made by the Chief Secretary to the Treasury on the 6<sup>th</sup> September regarding the scheme valuations for the public service pension schemes, including the LGPS.

For the unfunded schemes, a reduction in the discount rate will result in significant increases in employer contributions while the outcome of the cost cap floor of 2% being breached is expected to lead to improvements in member benefits.

For the LGPS, employer rates are set by local fund valuations (next in 2019) but the cost cap mechanism does potentially impact.

However, the Board has its own cost management process which will now be allowed to progress to completion with any changes to benefits being taken into account in the HM Treasury process.

Based on work undertaken by the Board's actuarial adviser, the total cost of the scheme (employer and employee) under the Board's process is 19% against a target total scheme cost of 19.5%.

The Board agreed to delegate to the Chair and a representative from both the employers and employees' sides, assisted by a small technical group, responsibility for agreeing a package of benefit changes to return the scheme to its total target cost of 19.5% while also looking at employee contributions at the lower end. The resultant package will be put to the full Board for agreement as soon as possible to ensure that scheme changes are on the statute book by April 2019.

The Board was also advised that discussions are underway to move local fund valuations to a quadrennial timeframe to ensure consistency with future scheme valuations. This will not, however, have any bearing on the 2019 valuation which will proceed as normal.

## **Academies and Third Tier Employer projects**

The Board agreed that the work of the academies administration working group should be allowed to continue to agree a standard monthly data extract for consideration at the next Board meeting. The future of the academies funding working group is the subject of ongoing discussions with MHCLG and DfE.

The third tier employers' report was published by Aon on the 24<sup>th</sup> September. A small working group from within the Board's membership will now assess and evaluate the options for change included in the report and report back to the Board with recommendations for scheme changes to put to MHCLG Ministers.

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## **Separation project**

The Board was advised that three teams had bid for this project to assess the practical steps that would need to be taken to implement the two options outlined in the bidding document. Board members will have until the 27<sup>th</sup> October to submit any comments on the three bid submissions, after which, the Chair and Vice Chair, under delegated authority, will decide the winning bid.

Board members were clear that the project was intended to help and assist with the successful management of potential conflict of interests arising between a pension fund and its parent local authority and was not to be taken as a criticism of elected members, section 151, or other officers.

## **Code of transparency – Compliance system**

The Board was advised that as of 28<sup>th</sup> September, 91 signatories had signed up to the code of transparency covering £180bn of the scheme's assets.

The procurement process to ensure compliance with the code has reached the stage where an OJEU contract notice has been posted. The procurement working group is to meet on the 17<sup>th</sup> October to evaluate responses to the selection questionnaire.

The Board also agreed that the Chair is given delegated authority to enter into formal discussions with representative bodies to progress the creation of a successor body to the IDWG.

## **Responsible Investment Guidance**

The Board was advised that the final draft of the guidance, reflecting recent government thinking around ESG considerations including climate risk, will be prepared for consideration at the next Board meeting.

Members were also advised that following an analysis of LGPS funds' Investment Strategy Statements, ShareAction is intending to engage with a number of LGPS fund authorities to discuss their approach to ESG policies.

## **Pensions Regulator**

Under AOB, concerns were raised about the attention being given to individual administering authorities by the Pensions Regulator, in particular, on record keeping and issue of annual benefit statements. The Board agreed that the Chair should write to the Pensions Regulator setting out the Board's concerns.