Report to:	Pension Committee	**Date:**	19 November 2018
Report title:	Updates on Pensions Landscape		
Report from:	Gerald Almeroth, Strategic Director - Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee:	Councillor Jill Whitehead		
Author(s)/Contact Number(s):	Lyndsey Gamble, Head of Investment, Risk and Commercial Finance - Resources 020 8770 5358 Paul Audu, Investment, Insurance and Commercial Manager - Resources 020 8770 5436		
Corporate Plan Priorities:	• Making Informed Choices		
Open/Exempt:	Open		
Signed:	G. Almeroth	**Date:**	08 November 2018

1. Summary

1.1 The Public Service Pension Schemes (PSPS) environment continues to evolve for a variety of reasons with consequences for the Local Government Pension Scheme (LGPS).

1.2 This report provides an overview of recent key developments including; actuarial valuation of PSPS, the LGPS Scheme Advisory Board (SAB) Separation Project and SAB review of LGPS third tier employers. The report considers the likely implications for the LGPS and it is aimed at the Pension Committee for information.

2. Recommendation

The Pension Committee is recommended to:

2.1 Note the content of this report.

3. Background

3.1 Following the Independent Public Service Pensions Commission's report in 2011, the Government reformed PSPS introducing the Career Average Revalued Earnings (CARE) Scheme with effect from April 2015. Also, a new framework for quadrennial actuarial valuation was established (with different three-yearly valuation dates for the LGPS). The purpose of the four-yearly valuation cycle is to support better alignment and risk-sharing between scheme members and taxpayers.

3.2 In the Draft Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018, the Government (Her Majesty's Treasury) believes that extending the four-yearly actuarial valuation cycle to the LGPS will minimise complications and assist with transparent and meaningful comparisons with the other public service pension schemes.

3.3 The LGPS Scheme Advisory Board (SAB), established under the Public Service Pensions Act 2013, advises the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) on the development of the LGPS. The SAB has commissioned work to develop options for change with regard to the separation of LGPS pension funds and their hosts (administering authorities) with a view to making recommendations to the Secretary of State.

4. Issues

Updates on Pensions Landscape

Public Service Pension Schemes Valuations

4.1 On 6 September 2018, the Chief Secretary to the Treasury (CST), Elizabeth Truss, announced details of the four-yearly valuation of the public service pension schemes, including the LGPS in England and Wales. The written Ministerial Statement can be found at Appendix A of this report.

4.2 In her Statement, the CST noted that initial results for the unfunded schemes show that members will enjoy improved pension benefits between April 2019 and March 2023 whilst employers contributions will need to increase. With respect to the funded LGPS, the SAB operates an additional cost cap (scheme-specific target rate reflecting the cost of benefit accrual in the scheme) process. Accordingly, the SAB process will be allowed to complete before the Treasury's proposed cost control mechanism is tested.

4.3 Should the SAB cost control review recommend changes to the LGPS, and the Government accepts the recommendations, the Treasury's cost cap process will be adjusted to reflect the change. The Treasury has announced that, in the event of such change, the scheme valuation will change from the current three-yearly to a four-yearly cycle in line with other public service scheme valuations. Whilst there is no direct impact on local LGPS Fund valuation, discussions are taking place between the MHCLG, Local Government Association (LGA) and scheme actuaries to consider the implications for valuations at the local level.

The Scheme Advisory Board (SAB) Separation Project

4.4 In 2015, the SAB commissioned KPMG to consider the issues and explore options for separating LGPS pension funds from their administering authorities. A copy of the KPMG report can be found at Appendix B of this report. After this initial work, the project was halted due to conflicting priorities. SAB has now agreed to continue the exercise as part of its 2018/19 Work Programme.

4.5 There are two options under consideration:

Separation within existing structures - this option involves greater ring-fencing of the pensions function with the use of delegation to transfer pension fund responsibilities from section 151 officers to other officers **or** requiring administering authorities to create dedicated senior officer positions to assume full responsibilities for the pension fund. Either way, administering authorities would be required to establish a discreet organisational unit. In addition, this option proposes amending the Accounts and Audit Regulations to require pension fund financial statements to be prepared and reported outside the host authorities' accounts. This means separate budgets have to be set for all pension fund activities together with distinct audit arrangements and separate Annual Governance Statement (AGS) for pension funds. Also, there would be upfront funding of pension budgets rather than internal recharging, minimum data and service standards and mandatory consultation with scheme employers and other member representatives on actuarial valuation, Funding Strategy Statements and Investment Strategy Statements.

Separation via new structures - this option involves local authorities delegating complete scheme manager function to alternative entities that would retain some democratic accountability. The new entities would be responsible for all decisions relating to the management and administration of the scheme including asset allocation, administering authority discretions, administration services, appointment of advisers and procurement of services. This option proposes giving the new bodies a legal identity in the form of a combined authority (avoiding the need for a lead authority or jointly owned company) and the constitution of the new structures would be enshrined in a formal agreement with local authorities. This means the new entities would be able to enter into various contracts to support service delivery to the group of employers assigned to it by utilising existing local government legislation. The assets and liabilities of existing authorities would be transferred to the new bodies albeit the ownership of the assets will be unchanged.

LGPS third tier employers

4.6 As part of its 2016/17 Work Programme, SAB sought to identify potential funding, legal and administrative issues and liabilities facing admitted and scheduled bodies with no tax-raising Powers (Tier 3 employers) in England and Wales. For the avoidance of doubt, local authorities and other public or statutory bodies with direct local or national taxpayer backing are Tier 1 employers. Academy Trusts are Tier 2 employers.

4.7 SAB worked with administering authorities to gather comprehensive data and appointed Aon to assist with data analysis. Following extensive engagement with the main Tier 3 employers including higher education, housing associations and charities, Aon presented a final draft report to SAB in June 2018. The report made no recommendation but instead outlined various issues raised by stakeholders and ideas for resolving the concerns.

4.8 Issues raised by Tier 3 employers are:

- Difficulties providing data
- Reliance on administering authority communications
- Cost of participation/exit and perceived strong covenant
- Poor experience of triennial valuations
- Possible inconsistency of responses/lack of understanding
- Possible lack of appreciation of the value of benefits
- Lack of awareness of 50:50 option
- Lack of consistency across Funds
- Mixed experience of administering authorities
- Inconsistency of funding treatment
- Redundancy costs for transfers-in/linked benefits
- Lack of representation/influence
- Effect on business planning
- Lack of flexibility
- Lack of transparency and inconsistency in valuation approach

4.9 SAB agreed the publication of Aon's report and a working group drawn from SAB members has been set up to review Tier 3 employers' concerns detailed in the report and consider how the issues might be resolved. The working group will report back later this year with some recommendations for consideration. Scheme stakeholder will get the opportunity to comment on SAB's recommendations prior to the Board making any formal approach to Ministers to change scheme regulations or guidance. Aon's report can be found at Appendix C of this report.

5. Impacts and Implications

<u>Financial</u>

5.1. There are no financial implications arising from this report.

<u>Legal</u>

5.2. There are no legal implications arising from this report.

6. Appendices and Background Documents

Appendix letter	Title
A	Chief Secretary to the Treasury's update to Parliament: Quadrennial valuations of the public service pension schemes: Written statement - HCWS945
B	LGPS Scheme Advisory Board - Reviewing the options for greater separation - KPMG Draft - 14 September 2015
C	Tier 3 employers in the LGPS - Aon Report, September 2018

Background Documents
1. Government Actuary Department (GAD) Technical Bulletin - Public Service Pension Schemes: valuations update 7 September 2018
2. Minutes of SAB Board meeting held on 10 October 2018

Audit Trail		
Version	Final	Date: 8 November 2018
Consultation with other officers		
Finance	Yes	Lyndsey Gamble
Legal	N/A	N/A
Equality Impact Assessment	N/A	N/A

This page is intentionally left blank