
Scheme Advisory Board – England and Wales

1. Key points to note

- HM Treasury and SAB cost management processes paused
- Separation project renamed 'Good Governance in the LGPS' project
- SAB considering guidance on responsible investment
- SAB to submit a technical response to the pooling guidance consultation
- SAB to undertake a further local pension board survey
- Work on the academy and third tier employer projects resumed.

2. Decisions

- The committee is asked to note the contents of the report

3. Summary

HM Treasury and SAB cost management processes paused

On 21 December 2018, the Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015, were unlawfully discriminatory. This case is known as the 'McCloud case'.

On 30 January 2019, the Government published a written statement that paused the HM Treasury cost management process for public service pension schemes, pending the outcome of the application to appeal the McCloud case to the Supreme Court. This was supplemented by the publication of the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment and Savings) Directions 2019, on 15 February 2019.

On 8 February 2019, the SAB confirmed it had no option but to pause its own cost management process pending the outcome of McCloud. As a result there are currently no changes to benefits planned in respect of the cost management process (either the LGPS process or HMT process) from 1 April 2019. This situation will be reviewed once McCloud is resolved which is not expected for some months.

The cost management page of the SAB website has been updated with all of the background information to the above, including a Q&A that was forwarded to all administering authorities on 15 February 2019. The Q&A is in HTML format to enable it to be easily updated as events move forward. It sets out potential timescales and possible outcomes of the McCloud case, and its impact on the cost cap process.

With regard to the 2019 valuations, administering authorities were asked if they would prefer:

A) To receive guidance from the SAB designed to promote a consistency of approach on how McCloud and/or cost management should be taken account of as part of the 2019 triennial valuation exercise. Such guidance would take the form that;

- i. if there is no finalised outcome on McCloud/Cost cap (including a commitment by government to detailed benefit changes) by 31 August 2019 then the scheme benefit design used in the valuation should be as set out in current regulations.
- ii. each administering authority would then, with their actuary, consider how they approach (and reflect in their Funding Strategy Statement) the risk around this matter in the same way as they would for other financial, employer and demographic risks.
- iii. once the outcome of McCloud is known and appropriate benefit changes are made administering authorities would, if they deem appropriate, re-visit employer contributions under such guidance or provision in regulation as may be available at that time.
- iv. a consistent approach to delaying or method of estimating exit credits and payments.

OR

B) To have no central guidance and instead leave it to each administering authority to determine their own approach to their valuation (including any potential cost from McCloud or cost cap) taking advice from their actuarial adviser.

To date, approximately 70 responses have been received with the majority preferring to receive guidance from SAB designed to promote a consistent approach. Work has now begun on producing the guidance.

Good governance project

The Separation project has been renamed the Good Governance in the LGPS project. The term separation had given rise to unfounded fears that options around removing the scheme from Local Authority control were being considered. It was agreed that 'Good Governance in the LGPS' better reflected the aims and ambitions of the project to enhance the delivery of the function within local authority structures.

Hymans Robertson have been awarded the contract to look into how LGPS functions can be accommodated within the democratically accountable local authority framework. They will be considering best practice, any conflicts of interest that have arisen and how they have been successfully dealt with.

Hymans will be engaging with stakeholders in the coming weeks to find examples of issues and good practice.

Responsible investment guidance

The Board have agreed with a recommendation from the Investment, Governance and Engagement committee ('Investment Committee') that the draft guidance should be extended to include a checklist enabling administering authorities to measure whether their ESG policy, including climate change risk, represents the minimum to comply with the law, good practice or best practice. Work would also be undertaken in conjunction with scheme stakeholders to assist administering authorities in developing a specific policy, if they wish, on climate change risk.

On 25 March, the Investment Committee agreed that the SAB should consider a joint paper published jointly by UNISON and ShareAction on the progress being made by administering authorities on ESG considerations; in particular on climate change risk.

Pooling guidance consultation

As reported in the January meeting, MHCLG have recently consulted on draft guidance on pooling for comment by selected stakeholders. The guidance aims to build on previous guidance and address areas that have subsequently been clarified or added via ministerial letters and statements.

A draft technical response on behalf of the SAB has been circulated to Board member for comment by 29 March.

Local Pension Boards survey

Following concerns raised at the Investment Committee about the effectiveness of some local pension boards, the Board agreed that the Secretariat should prepare a draft survey to build on the survey undertaken in 2017.

The Investment committee met on 25 March and considered a draft survey. The Committee agreed that further work should be undertaken to finalise the draft in time for it to be considered by SAB, with a view to issuing it in May 2019.

Academies and third tier employer projects

Progress on both projects has been limited due to the Board's resources being taken up by the cost management process. However, work on both projects will now resume.

Academies Administration group – all stakeholders believe that a universal data extract (monthly) covering all employers, LGPS administering authorities and software platforms is a great idea, but there is disagreement on the format and what data to include. TPR is strongly in favour of monthly, electronic data collection.

Third tier employers – Aon presented 85 options for reform in September 2018. The SAB have set up a working group – the group have been asked to consider the 85 options listed in the report and feedback, by 22 March, which the six options they think SAB should consider as recommendations to make to MHCLG Ministers. This will enable the SAB to assess how much common ground there is across the various stakeholders.

To assist the working group, SAB's legal adviser will be asked to provide an assessment of any legal obstacles to any of the options being taken forward as SAB recommendations.

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