

Pensions Committee

10.00 a.m., Tuesday, 17th June 2014

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

Item number	5.10
Report number	
Executive/routine	
Wards	All

Executive summary

Progress continues to be made towards implementation of a new Local Government Pension Scheme (LGPS) in Scotland from 1 April 2015. Consultation on draft LGPS (Scotland) Regulations 2014 (Benefits and Administration) has concluded. These and further separate Regulations covering transitional provisions and scheme governance will follow over the coming months. Delays by the Scottish Public Pensions Agency in laying these Regulations, however, have led to some concerns being expressed as to risk to successful implementation. The consultation on the structure of the LGPS in Scotland is expected to be a focus of attention for the new national Scheme Advisory Board, once this is constituted in April 2015.

Coverage of matters affecting the LGPS in England and Wales and other pensions reform matters is included for reference.

Further regular updates will be provided to Pensions Committee.

Links

Coalition pledges

Council outcomes

CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

Single Outcome Agreement

Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

Recommendations

- 1.1 Pensions Committee should note the regulatory update provided in this report.

Background

Reform of the LGPS in Scotland 2015

- 2.1 This report is the latest in a series of regular updates on public service pension reform and specifically the implications of fundamental change to the design and governance of the Local Government Pension Scheme (LGPS) in Scotland.
- 2.2 Heads of Agreement on the new LGPS in Scotland were published on 12 December 2013.
- 2.3 Consultation by the Scottish Public Pensions Agency (SPPA) on draft Local Government Pension Scheme (Scotland) Regulations 2014 closed on 14 February 2014. Responses have been submitted by CoSLA and also the Scottish Pensions Liaison Group (SPLG).
- 2.4 This Council has also responded to a separate consultation on proposals for governance of the new LGPS.

Main report

LGPS in Scotland 2015 – Regulations

- 3.1 The Scottish Public Pensions Agency has advised of delays to the anticipated timetable for both the writing and subsequent laying of the Regulations for the new LGPS.
- 3.2 Following the recent consultation, LGPS (Scotland) Regulations 2014 (Benefits and Administration) are expected to be signed by May 2014 and laid before the summer recess of the Scottish Parliament in June 2014.

- 3.3 Transitional Regulations establish the legislative basis for the preservation of benefit entitlements from the current final salary scheme to the new career average scheme. The Scottish Public Pensions Agency has advised that, whilst draft Transitional Regulations should be issued for consultation before the summer recess, it is expected that these will not be laid until September 2014.
- 3.4 CoSLA has expressed its concerns to the Scottish Government as to the potential impact of these regulatory delays. Software suppliers of both payroll and pensions administration have requested clarity of the new scheme requirements at the earliest juncture. It is hoped, however, that similarity to the new LGPS in England and Wales, which took effect from 1 April 2014, may mitigate the impact of regulatory delay. However, communications to members and employers cannot be finalised until requisite details are confirmed.

LGPS in Scotland 2015 – Governance

- 3.5 Following the Heads of Agreement on scheme design, the tri-partite negotiating body, Scottish Local Government Pension Scheme Advisory Group (SLOGPAG) has begun to consider the details of a new governance structure for the LGPS. Committee is reminded that the Public Service Pensions Act 2013 requires the establishment of a new governance structure, both at a Fund and national level. At the local Fund level a Scheme Manager (with responsibility for the management of the scheme) and a Pensions Board (with responsibility for assisting the management of the scheme) are required for each Fund. At a national level, a Scheme Advisory Board (with responsibility for advising Scottish Ministers) is also mandated. Governance Regulations are expected to be issued for consultation over the coming months.

LGPS in Scotland 2015 – Communications

- 3.6 SLOGPAG has established a Communications Sub-Group to provide Scottish local authority pension funds with a common source of reliable and relevant material for member and employer communication. It consists of communications specialists from the Strathclyde, Lothian and North East of Scotland Pension Funds, as well as representatives from SLOGPAG and Scottish Public Pensions Agency. Further technical advice is being provided by the Local Government Association (LGA). Scottish Funds have indicated that they would be prepared to contribute up to £5,000 each towards the costs of joint publicity material. This would be contained within the Lothian Pension Fund budget.

3.7 The main items of work either completed or being progressed by the Sub-Group are as follows:

- Communications Plan
- Heads of Agreement Newsletter
- LGPS 2015 logo, website and video
- Modellers and calculators
- Guides for members

LGPS in England and Wales 2014

3.8 A new career average revalued earnings (CARE) scheme was implemented in England & Wales on 1 April 2014. Transitional Regulations were laid by Parliament as late as 10 March 2014. Although very similar to the forthcoming scheme in Scotland, there remain distinct differences; definition of pensionable pay, pay protection principles, member contribution rate calculations, application of employer cost capping being a few salient examples. At present, it is too early to assess how local authorities have coped with the additional administrative burden of LGPS reform.

LGPS in England and Wales - consultation on structural reform

3.9 On 1 May 2014, the Department for Communities and Local Government (DCLG) has launched a formal consultation on opportunities for collaboration, cost savings and efficiencies for the LGPS in England and Wales. This follows analysis undertaken by Hymans Robertson on behalf of DCLG which detailed cost-benefit analysis of potential options; up to 10 common investment vehicles and merging into 5 to 10 funds. Fund merger is not the government's preferred option. Instead it proposes to leave decisions on asset allocation with the individual funds and the use of collective investment vehicles to invest more efficiently and the greater use of passive management for listed assets.

Budget 2014 – Potential impact upon LGPS

3.10 In the budget statement on 19 March 2014, the Chancellor announced that, following primary legislation to be put in place over the next year, from April 2015, the tax rules relating to drawdown of defined contribution (DC) pension arrangements would be relaxed. Members of DC schemes will be able to use their DC funds much more flexibly. Specifically, the whole pension pot could be taken at any time from retirement, subject only to tax at the individual's marginal rate (apart from the pension commencement lump sum, which will remain tax free).

- 3.11 The April 2015 proposals only apply to DC pensions. However, there are implications for defined benefit (DB) pension arrangements. In particular, members of public sector DB schemes will be banned from transferring out to DC schemes. This will prevent a significant drain on the Exchequer arising from a large number of transfers from unfunded schemes. Transfers from public sector DB schemes to other DB schemes will not be affected.
- 3.12 The Government is also considering whether similar measures are needed to prevent or restrict transfers from private sector DB schemes to DC. Funded public sector schemes such as the LGPS may be subject to a similar ban but the decision could be influenced by the treatment of private sector schemes. The Government says that it may permit transfers from private sector DB to DC schemes 'if the risks and issues around doing so can be shown to be manageable'.
- 3.13 This change could have an impact on the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund. If a significant number of members choose to transfer the value of their benefits out to take advantage of this greater flexibility, this could have cashflow, investment and funding implications.

Pensions Bill 2013 update (now Pensions Act 2014)

- 3.14 As reported previously, the Pensions Bill 2013 proposal to end contracting-out would result in additional National Insurance costs for LGPS employers and employees of 3.4% and 1.4% of relevant earnings respectively. LGA and CoSLA have expressed concerns as to the financial impact on local authority employers and LGPS funds. To-date, however, there remains no indication that additional Government grant support will be forthcoming.
- 3.15 Consideration of a separate Commons amendment to the Bill took place in the House of Lords on 8 April 2014. Both Houses agreed on the text of the Bill. On 14 May 2014, Royal Assent was granted for the Pensions Act 2014.

Measures of success

- 4.1 This report is purely advisory at this stage.

Financial impact

- 5.1 There are no financial implications arising directly from this report. However changes to the LGPS in Scotland will have financial consequences for Lothian Pension Fund and Lothian Buses Pension Fund, participating employers and members. These will be addressed in future reports to the Pensions Committee.

Risk, policy, compliance and governance impact

- 6.1 From a governance perspective, this report is purely advisory at this stage. In due course, a revised governance structure for the LGPS in Scotland will require changes to be made by the City of Edinburgh Council, as administering authority of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.
- 6.2 The delay in transitional regulations for the new LGPS presents a risk that administration services may be adversely impacted and communications to members and employers will be delayed.
- 6.3 There is a risk that taxation changes for defined contribution pensions schemes may have an impact on the cashflow, investment and funding of the pension funds.

Equalities impact

- 7.1 There are no adverse equalities impacts arising from this report. Changes to the design of the LGPS are subject to Equality Impact Assessment by the Scottish Government.

Sustainability impact

- 8.1 There are no adverse sustainability impacts arising from this report. The Public Service Pensions Act 2013 aims to make pensions more sustainable.

Consultation and engagement

- 9.1 Lothian Pension Fund is committed, on an ongoing basis, to keeping its employers and members fully informed of all the key developments on reform of the LGPS in Scotland. Consultation will take place at appropriate times.

Background reading / external references

Heads of Agreement on the new Local Government Pension Scheme in Scotland were published on 12 December 2013. These are available on the Lothian Pension Fund web-site through the following link:

http://www.sppa.gov.uk/Documents/Local%20Government/Useful%20Resources/Consultations/2014/LGPS_Heads%20of%20Agreement_231213.pdf

Consultation on draft Local Government Pension Scheme (Scotland) Regulations 2014 can be viewed at:

http://www.sppa.gov.uk/Documents/Local%20Government/Useful%20Resources/Consultations/2014/LGPS_Scotland_Regulations_2014_070114.pdf

Similarly, please see links to the [consultation on proposals for governance](#) in the LGPS in Scotland, together with the response from this Council.

The UK Government has responded to the call for evidence by publishing a consultation on principles for reform, which provides fuller details of the Government's proposals. You can access this consultation at:

<https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies>.

The Department for Communities and Local Government's (DCLG) response to the call for evidence on the future structure of the Local Government Pension Scheme in England and Wales can be seen at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307920/LGPS_call_for_evidence_response.pdf

A link to HM Treasury's consultation "Freedom and choice in pensions" is below

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294795/freedom_and_choice_in_pensions_web_210314.pdf

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Links

Coalition pledges

Council outcomes CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

Single Outcome Agreement

Appendices None

