

Pensions Committee

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

Item number	5.10
Report number	
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Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

Summary

This report provides an update on pensions regulations, including:-

- The Public Service Pensions Act 2013 which compels reform of the design and structure of the Local Government Pension Scheme (LGPS) in Scotland by April 2015. The implications for Lothian Pension Fund and Lothian Buses Pension Fund, therefore, are significant.
- Reform of the LGPS in England and Wales scheduled for April 2014.
- Progress towards scheme specific regulations, on behalf of Scottish Ministers, for a new LGPS in Scotland.
- The Pensions Bill 2013 proposal to introduce a flat-rate state pension from April 2016.

Recommendations

Pensions Committee should note the regulatory update in this report, the significant implications for Lothian Pension Fund and Lothian Buses Pension Fund of the Public Service Pensions Act 2013 and the tight timescales for implementation of a new LGPS in Scotland.

Measures of success

This report is purely advisory at this stage.

Financial impact

There are no financial implications arising directly from this report. Future legislative change to the design of the Local Government Pension Scheme, however, will have financial consequences for Lothian Pension Fund and Lothian Buses Pension Fund, participating employers and members. These are currently unknown and will be addressed in future reports to the Pensions Committee.

Equalities impact

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

Sustainability impact

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

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

The Public Sector Pensions Act is provided through the following web-link [Public Service Pensions Act 2013](#)

Department for Communities and Local Government consultation on the draft Local Government Pension Scheme 2014 and 2008 Scheme Amending Regulations can be found at http://www.local.gov.uk/c/document_library/get_file?uuid=d6531e58-bf36-4789-bcec-f71d587a2607&groupid=10171

The Pensions Bill 2013 is shown at http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181121/draft-pensions-bill.pdf

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

1. Background

- 1.1 The Public Service Pensions Bill was introduced to Parliament in September 2012 and incorporated many of the recommendations of the Independent Public Service Pensions Commission's (IPSPC) review of public service pension provision, which reported in 2011.
- 1.2 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. Main report

Public Service Pensions Act 2013

- 2.1 The Public Service Pensions Bill received Royal Assent on Thursday 25 April 2013, becoming the Public Service Pensions Act 2013 ('the Act').
- 2.2 As previously reported to Committee, the enactment of the Public Service Pensions Bill now compels reform of the design and structure of the Local Government Pension Scheme (LGPS) in Scotland. The implications for Lothian Pension Fund and Lothian Buses Pension Fund, therefore, are significant.
- 2.3 Committee is reminded of the main provisions of the Act:
 - 2.3.1 The main existing public service schemes may not provide final salary based benefits in relation to service after 31 March 2015 (or service after 31 March 2014 for the Local Government Pension Scheme in England & Wales).
 - 2.3.2 The Act provides for scheme regulations to be made within a common framework, to establish new Career Average Revalued Earnings schemes to pay pensions and other benefits to certain public servants.
 - 2.3.3 In general, normal pension age will be linked to State Pension age, with some exceptions for members of the police, firefighters and armed forces.

- 2.3.4 Actuarial valuations are to be carried out in accordance with directions set by HM Treasury after consultation with the Government Actuary.
- 2.3.5 A cost control mechanism will keep the ongoing cost of the schemes within defined margins with steps outlining remedial action that will be taken if these margins are breached. This will be set at a national scheme level. Therefore, there will be an employer cost cap for the LGPS in Scotland which will be applicable to all eleven Scottish LGPS Funds.
- 2.3.6 An increased governance regime applies to public service pension provision, with the Act requiring that each scheme (or local LGPS Fund) appoint a Scheme Manager who will be assisted by a Pension Board. Further, each scheme will establish a Scheme Advisory Board (national for LGPS) to advise on the desirability of changes to the scheme.
- 2.3.7 The jurisdiction of the Pensions Regulator in relation to public service pension schemes is extended, and the Regulator may issue Codes of Practice relating to such schemes.
- 2.3.8 The Act contains various provisions relating to information requirements for public service pension schemes, including an annual requirement to issue benefit information statements to active members.

Establishment of new schemes

- 2.4 The Act directs a common framework for 'responsible authorities' to establish new schemes and therefore provides for subsequent Regulations to cover the specific details at individual scheme level. For the Local Government Pension Scheme in Scotland, the responsible authority rests with the relevant Scottish Minister, presently the Cabinet Secretary for Finance & Sustainable Growth.

Reform of the LGPS in England and Wales

- 2.5 On 30 March 2013, the Department for Communities and Local Government (DCLG) issued a second period of statutory consultation on the new Local Government Pension Scheme which will come into effect from 1 April 2014. This covers draft Regulations on membership, contributions and benefits, miscellaneous administration provisions and also transitional provisions to take forward necessary protections, both existing and new. The deadline for responses was set at 3 May 2013, with an extension to 24 May 2013 for the Transitional Provisions and Miscellaneous Amendments.

Governance of the Local Government Pension Scheme

Shadow Scheme Advisory Board for the LGPS in England and Wales

- 2.6 The Public Service Pensions Act 2013 introduces a requirement for public service pension schemes to have a Scheme Advisory Board. For the Local Government Pension Scheme (LGPS) this will be at the national (England and Wales) level

and would be in addition to the Pension Boards and Scheme Managers for each fund. The statutory LGPS Scheme Advisory Board will be constituted through specific LGPS Regulations which are expected to be issued for consultation later in the summer. The Shadow Board's core role will be to make recommendations to the Secretary of State, the Pensions Regulator and to local pension boards and scheme managers to improve the effective administration, governance, performance and cost management of the LGPS. Under the Act, the statutory LGPS Scheme Advisory Board should have an advisory role and, as such, will have no statutory powers of its own but rather would seek to work with existing regulatory and advisory bodies to achieve its objectives. To inform and test the process of operation of the statutory Scheme Advisory Board, prior to its statutory formation in 2014, the Government has agreed the establishment of a Shadow Scheme Advisory Board (the Shadow Board). Nominations for the membership of the Shadow Advisory Board were requested by early June 2013, with appointments expected to follow shortly.

- 2.7 The Local Government Association (LGA), which is CoSLA's equivalent in England and Wales, has commented on the current "confusion surrounding the role and structure of local pension boards", as specified by the Act.
- 2.8 Specifically, under the Act, "The **Pension Board** is a board with responsibility for assisting the Scheme Manager (or each Scheme Manager) in securing compliance with scheme regulations, other legislation covering governance and administration and the requirements of the Pensions Regulator. The addition of the phrase in brackets was to confirm that such boards would operate at the fund level in the LGPS".
- 2.9 "At the Fund level, the Scheme Manager manages and administers the scheme assisted by the **Pension Board**. These are two distinct roles for the administering authority one of which (the **Scheme Manager**) is very much a hands on, decision making, management and investment function with the added task of ensuring there are no conflicts of interest for any pension board members. The other (the **Pension Board**) would appear to be much more of a compliance and scrutiny role with a responsibility to ensure that the former is complying with its statutory responsibilities. Clause 5(7) of the Bill deliberately provides that scheme regulations may allow for the **Pension Board** to be either the same as the existing statutory pensions committee or a separate body. As currently envisaged, it will not be a Fund discretion on how to meet the requirements in relation to the above, but set nationally, for England & Wales, for the LGPS as a whole. In summary, any decision over whether the **Pension Board** and **Scheme Manager** roles can be delegated to separate committees or the same committee has yet to be made. Funds should consider carefully how they may wish regulations to reflect their situation in order to be able to respond effectively to the draft regulations when they appear later this year."

Future structure of the LGPS in England and Wales

- 2.10 On 16 May 2013, DCLG and LGA held a “roundtable event” on the potential for structural change within the LGPS, in particular the merger of pension funds. The focus was a presentation by the Society of London Treasurers on options for greater collaboration by the London Councils, together with a report on a similar project by the Society of Welsh Treasurers also considered.
- 2.11 The Local Government Minister, Brandon Lewis, subsequently confirmed that DCLG would issue a call for evidence as to whether there should be mergers of existing LGPS funds. This would lead to a consultation later this year on a number of broad principles for change which would examine reforms to both improve investment performance and reduce fund management costs. "We will consult this year on the broad principles of change to reduce costs. We will not set out a pre-determined solution but we will not rule anything out", adding also that "I am not wedded to having eighty-nine funds". A ‘root-and-branch review’ of the LGPS investment regulations is also planned.
- 2.12 Committee is also reminded of the Pathfinder Project, which examined the case for rationalisation of funds in Scotland.

LGPS in Scotland 2015

- 2.13 Further meetings of the Scottish Local Government Pensions Advisory Group (SLOGPAG) have been held to consider the implications of the Public Service Pensions Act and address future reform requirements.
- 2.14 Membership data, plus financial and demographic assumptions, has been supplied to the Government Actuary by all the Scottish administering authorities in order to facilitate scheme design modelling which is tailored to specific Scottish LGPS experience.
- 2.15 To-date the main focus of SLOGPAG and its Technical Sub-Group has been on scheme design, but it is also recognised that governance issues need to be addressed. Accordingly, a further Governance Sub-Group has been established to take forward governance issues concurrent with scheme design. As reported previously, there is little scope for slippage in the overall project timetable if the now statutory implementation deadline of 1 April 2015 is to be achieved.

State Pension – The Pensions Bill 2013

- 2.16 The White Paper “The single-tier pension: a simple foundation for saving”, issued in January 2013, outlined proposals to reform the State Pension into a single-tier State Pension. The Queen’s Speech of 8 May 2013 confirmed that the Pensions Bill 2013 will introduce a flat-rate state pension from April 2016. Additionally, the increase in state pension age to 67 will be brought forward, it now being phased in between 2026 and 2028, together with laying the framework for its regular review.

2.17 As reported to the Committee in March 2013, the proposals 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. Sponsoring employers of most private sector defined benefit schemes will be able to change the level of benefits accrued in future to offset this increased cost. This scope will not apply to public service pensions.

3. Recommendations

3.1 Pensions Committee should note the regulatory update in this report, the significant implications for Lothian Pension Fund and Lothian Buses Pension Fund of the Public Service Pensions Act 2013 and the tight timescales for implementation of a new LGPS in Scotland.

4. Background reading / external references

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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