

Pensions Committee

2 pm, Tuesday 24 September 2013

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

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Alastair Maclean

Director of Corporate Governance

Contact: John Burns, Pensions & Accounting Manager

E-mail: john.burns@edinburgh.gov.uk | Tel: 0131 469 3711

Executive summary

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

Summary

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

- Progress towards scheme specific regulations, on behalf of Scottish Ministers, for reform of the design and structure of Local Government Pension Scheme (LGPS) in Scotland by April 2015. This is required in order to comply with the Public Service Pensions Act 2013.
- Reform of the LGPS in England and Wales scheduled for April 2014.
- 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](#)

The latest Department for Communities and Local Government consultation on the draft Local Government Pension Scheme 2014 can be found at <https://www.gov.uk/government/consultations/local-government-pension-scheme-2014>, together with related discussion paper [Local Government Pension Scheme \(England and Wales\) new governance arrangements](#).

Progress of the Pensions Bill 2013 can be viewed at <http://services.parliament.uk/bills/2013-14/pensions.html>

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

1. Background

- 1.1 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. Main report

Reform of the LGPS in England and Wales

- 2.1 Regulations on membership, contributions and benefits, administration and transitional provisions are anticipated for the new LGPS. These will come into effect from 1 April 2014. This follows the third statutory consultation on draft regulations which closed on 2 August 2013.
- 2.2 Additionally, the Local Government Association and the Department for Communities and Local Government have announced their intention to introduce into the English and Welsh LGPS a separate employer cost cap mechanism which would trigger at a lower threshold than the 2% tolerance on employer rate mandated by HM Treasury (please see paragraphs 2.8 to 2.10 below).

Governance of the LGPS in England and Wales

- 2.3 As reported previously, the Department of Communities and Local Government published a discussion paper seeking views on the future governance arrangements of the LGPS. The main focus of deliberation is expected to be the remit and composition of the new Pension Boards and whether or not these should be combined with existing Pension Committees. The deadline for responses to this consultation was 30 August 2013. An announcement by the Department of Communities and Local Government is awaited.

Shadow Scheme Advisory Board for the LGPS in England and Wales

- 2.4 National Association of Pension Funds (NAPF) chief executive Joanne Segars has been elected chair of the shadow LGPS advisory board. The shadow board will assist schemes within the LGPS as well as advise the government on running the scheme. Segars took up the role on 15 July and will chair until the full scheme advisory board for the LGPS is created in 2014.

LGPS in Scotland 2015

Scottish Local Government Pensions Advisory Group (SLOGPAG)

- 2.5 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. Officers from Lothian Pension Fund have been advising CoSLA. Progress is being made on both scheme design and governance and it is hoped that Heads of Agreement could be agreed very shortly. Unions and CoSLA are seeking agreement from their respective stakeholders. An oral update will be provided to Committee.
- 2.6 As reported previously, the statutory implementation deadline of 1 April 2015 remains a challenging target. Regulations will need to be revised by the Scottish Government to reflect both the new scheme changes and also transitional arrangements.
- 2.7 Stakeholder communication, administrative readiness and governance review will be the major focus for Lothian Pension Fund and regular updates will continue to be provided to the Pensions Committee.

Cost Capping

- 2.8 Committee is reminded that the Public Service Pensions Act 2013 contains provisions related to introducing a cost cap as a mechanism to control future pension costs and to ensure a fair balance of risks between scheme members and the taxpayer. All schemes must set a cap, expressed as a percentage of pensionable pay. For the LGPS this will be at the scheme level, rather than at the level of each individual fund. If a valuation shows that the costs of a scheme have risen more than 2% above the cap, or have fallen more than 2% below the cap, action will be taken to return costs to the level of the cap. It will be left to the individual public service scheme design to determine how to bring costs within the cap, by either increasing employee contributions, or by reducing specific benefits, or by a combination of the two. For the LGPS in Scotland, it will be operated nationwide.
- 2.9 The cost cap will control all of the cost risks associated with the new pension schemes, and the risks associated with active members who have service in the existing, pre-reform schemes (including those with transitional protection). Changes in costs which arise from technical or financial changes will not affect the cost cap. Only those which directly relate to members – such as changing expectations about life expectancy, salary growth or career paths – will be included in the cap mechanism.

- 2.10 In order to meet the timetable for the new schemes to come into effect in April 2015, the core elements of the directions needed to be finalised this summer. HM Treasury issued draft directions as to the operation of the statutory cost cap. A link to these is included in the “Background reading / external references” section below. The closing date for the submission of comments on these draft directions, to both HM Treasury and the Scottish Public Pensions Agency, was extended to 9 August 2013.
- 2.11 CoSLA has responded to the consultation as follows:
- 2.12 “CoSLA is the representative voice for the 32 Scottish local authorities and in principle we support the introduction of the cost cap as a means to assist in the sustainability of public service pensions and to bring about an element of cost sharing between scheme members and employers.
- 2.13 The inclusion of the valuations and the setting of the cost cap in the regulations should be done in such a way as to allow for devolved discretion, particularly for the funded schemes. Local Government pensions in Scotland are a matter for the Scottish Government, and we would not want to see the flexibility that Scottish Ministers have in the design and operation of the Local Government Pension Scheme (LGPS) in Scotland diminished. There should be an appropriate recognition of where financial responsibility lays with regard the affordability of the LGPS in Scotland and the appropriate level of discretion should be maintained for the valuations and cost cap as a reflection of this.
- 2.14 As the proposals currently stand, there will be a requirement for up to three different valuations (in the case of a funded scheme), all on a different basis. The calculation for the cost cap valuation has significant complexity. COSLA is of the view that there would be merit in further consideration of the complexity and whether the proposals could be simplified. The communication and stakeholder understanding around the valuations and cost cap mechanism will be a challenge which should not be underestimated, and therefore adequate resources should be dedicated to this aspect.”

State Pension – The Pensions Bill 2013

- 2.15 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. The Public Bill Committee reported to the House of Commons on 11 July 2013, with the Bill due to have its report stage and third reading shortly.
- 2.16 The Local Government Association submitted written evidence at the beginning of July. This evidence covered “the unintended consequences for public service pension schemes and, in particular, the LGPS given its funded nature should the removal of contracting out take place”. It is understood that CoSLA, similarly, has raised its concerns with both the Scottish and UK Government.

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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Alastair Maclean

Director of Corporate Governance

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