

# Scheme Advisory Board

## HYBRID MEETING – 4 December 2023

### AGENDA

1.00pm – 3.00pm, Monday 4 December 2023

Beecham Room, 7<sup>th</sup> Floor, 18 Smith Square and MS Teams

Item		Timings
1	Welcome, apologies and introductions	1.00
2	Meeting protocol and declarations of conflicts of interest	1.05
3	Actions and Agreements from meeting of 17 July 2023 – <b>Paper A</b>	1.10
4	Economic Activity of Public Bodies (Overseas Matters) Bill – verbal update	1.15
5	King's Speech – verbal update	1.20
6	Autumn Statement – verbal update	1.25
7	Surpluses Statement – <b>Paper B (CONFIDENTIAL)</b>	1.35
8	Risk Register – <b>Paper C</b>	1.45
9	Code of Transparency reporting system – <b>Paper D (CONFIDENTIAL)</b>	1.55
10	Board budget and workplan 2024/25 – <b>Paper E (CONFIDENTIAL)</b>	2.05
11	Terms of Reference and committee scope – <b>Paper F</b>	2.15
12	Board and Committee Membership – verbal update	2.20
13	Scheme Cost Assessment – <b>Paper G</b>	2.25
14	Compliance & Reporting Committee report – <b>Paper H</b>	2.35
15	Cost Management, Benefit Design and Administration Committee report – <b>Paper I</b>	2.45
16	Investment Committee report – <b>Paper J (CONFIDENTIAL)</b>	2.50
17	AOB and date of next meeting	2.55

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## ITEM 3 – PAPER A – ACTIONS AND AGREEMENTS

**HYBRID MEETING HELD ON 17<sup>TH</sup> JULY 2023 – 1.00pm**

### **PRESENT**

Cllr Roger Phillips	Chair
Jon Richards	Vice-Chair (UNISON)
Cllr Yvonne Johnson	Scheme Employer Representative
Cllr John Beesley	Scheme Employer Representative
Cllr John Fuller	Scheme Employer Representative
Cllr Christopher Weaver	Scheme Employer Representative
Cllr Andrew Thornton	Scheme Employer Representative
Emelda Nicholroy	Scheme Employer Representative (UCEA)
George Georgiou	Scheme Member Representative (GMB)
John Neal	Scheme Member Representative (UNITE)
Garry Warwick	Scheme Member Representative (GMB)
Bridie McCreesh	Scheme Member Representative (UNITE)
Chris Tansley	Scheme Member Representative (Unison)
George Graham	Practitioner Representative (SYPA)
Mark Wynn	Compliance and Reporting Committee Chair
Nick Kirby	TUC
Joe Dabrowski	PLSA
Teresa Clay	DLUHC
Matt Gurden	GAD
Gary Delderfield	Eversheds Sutherland
Alan Wilkinson	SPPA
Jo Donnelly	LGA – Board Secretary
Jeremy Hughes	LGA – Deputy Board Secretary
Lorraine Bennett	LGA – Senior Pensions Adviser
Becky Clough	LGA – Board Support Officer

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Gareth Brown LGA – Pensions Analyst

Ona Ehimuan LGA – Pensions Secretary

## Item 1. Welcome, apologies and introductions

1. Apologies for absence were received from Jonathan Hunt (Consultant to LGA) and David Murphy (NILGOSC). Cllrs Phillips and Fuller gave apologies that they would need to leave the meeting at 2:30pm to attend a meeting at No10 on an unrelated subject.

## Item 2. Meeting Protocol and declarations of conflicts of interest

2. The Chair reminded attendees of the hybrid meeting protocol. There were no declarations of interest.

## Item 3. Actions & Agreements from 22<sup>nd</sup> May 2023 meeting (Paper A)

3. The minutes of the meeting of 22<sup>nd</sup> May 2023 were confirmed as an accurate record of the meeting. On the status of the McCloud Judicial Review summary note, Gary Delderfield (GD) confirmed that this had been completed and would be sent to the Secretariat imminently. George Georgiou (GGe) informed the Board that the Court of Appeal would hear the appeal against the High Court judge's decision in December 2023 or January 2024.

## Item 4. Economic Activity of Public Bodies (Overseas Matters) Bill

4. Jo Donnelly (JD) informed the Board that she had attended a meeting between the then political leader of the LGA, Cllr James Jamieson, and DLUHC Minister Felicity Buchan about the Bill. Cllr Jamieson had explained his concerns to the minister, with a particular focus around the enforcement regime arrangements.
5. JD also said that the second reading of the Bill had been held in Parliament on July 3<sup>rd</sup>. The Public Bill Committee stage would be held in September and there had been a call for written submissions. The LGA had issued a technical briefing on the Bill ahead of the second reading, and the Secretariat would be working on a submission for the committee, on behalf of the Board, along with a SAB specific briefing. Development of this would take place over the coming weeks.

## Item 5. Consultations Update

6. Updates were given as follows:
  - **i) McCloud** – Lorraine Bennett (LB) informed the Board that DLUHC's second McCloud consultation closed on 30<sup>th</sup> June 2023. The LGPC response comprised largely of responses to technical issues raised. There were ongoing concerns about the timing of regulations and resource capacity within DLUHC to do this work. The LGPC team had begun work to procure a

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provider to draft communications for scheme members with input from the Communications Working Group. There were plans for information to be placed on the member website including news articles, specific pages on McCloud, a short animation, an interactive tool, and a factsheet for funds to use.

- **ii) Survivor benefits and death grants** – LB updated the Board that draft regulations had been seen and there were still some areas that required further discussion. Teresa Clay (TC) thanked the SAB and LGPC teams for their contributions which had identified areas of the draft regulations that required further legal advice. This now meant that DLUHC would not be able to move forward with the regulations until the Autumn.
- **iii) Good Governance** – Becky Clough (BC) confirmed that a consultation on updated regulations or statutory guidance were not expected until early 2024. In the meantime, a working group would review the 2008 DLUHC guidance on Governance Compliance Statements. DLUHC had also indicated that Knowledge and Skills and Conflicts of Interest were areas where policy could helpfully be progressed to inform the consultation.
- **iv) Investments** – The Board were reminded that the Investments consultation was issued on 11<sup>th</sup> July 2023 and closes on 2<sup>nd</sup> October 2023. The areas covered in the consultation include the transition of all listed assets from funds to pools by March 2025, proposals to increase investments in private equity and requiring funds to set a target for investments linked to Levelling Up missions. Also covered, were proposals on two technical amendments, one on the CMA Order, and the other an amendment to the definition of investments in the 2016 Investment Regulations. The consultation also suggested that the minimum pool size was expected to be £50 billion and that in the future there would be fewer pools than at present. There was a need to consider how this would be achieved as pools were already established entities with individual governance systems. DLUHC had said however that the £50 billion pool size target was not rigid and there may be exceptions in some instances (e.g. in the case of the Wales Pension Partnership). TC indicated that government's view was that the transition to fewer pools would likely happen in 3 phases; the first being moving more assets to pools; the second being more collaboration between and specialisation of pools. The third – longer term – phase would be the rationalisation of pools to ensure more are around the £50 billion level that government believes is appropriate. The Board discussed initial views on the consultation. The Secretariat will feed these comments into the formal SAB response as it would need to be submitted before the next Board meeting on 4<sup>th</sup> December 2023.

Joe Dabrowski (JDa) said that PLSA's survey of funds found that reception to the consultation was not enthusiastic. It seemed largely comprised of general

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themes but lacked clarity in important areas. On Levelling Up investments, he suggested that the Office for Investment and British Business Bank needed to create opportunities in this space. A question was raised about the various investment targets that had been laid out in the consultation and previously by Government. These would comprise a substantial proportion of a fund's asset portfolio if each was followed and considered a separate category. TC explained that these targets were not rigid and that individual assets could count towards a number of different targets. She also confirmed that the final authority on investment decisions would remain with administering authorities.

Roger Phillips (RP) said that at his meeting with the Minister, he had said that funds were, by and large, open to investment in local infrastructure but there are barriers to engaging in this strategy. The priority should remain to achieve a return on investments made regardless of asset class. RP noted that there was a need for further reflection on the Board's response to the pooling target set out in the consultation. He said that it was likely that there would be fewer pools in ten years' time, there was still a debate to be had on how this would be achieved. The process would take time, sizeable capacity, and effective leadership. The Board is well positioned to take the lead on this, but there would need to be an assessment of whether there was sufficient capacity to support an additional workstream.

JD commented that the proposal for Knowledge and Skills in the consultation (paras. 32 and 33) was disappointing, given the recommendations in the Good Governance action plan. The Board agreed and felt that this proposal could have been more robust; JD suggested inclusion of this point in the Board's response.

It was agreed that a working group be established to contribute to the SAB response to the Investments consultation. The participants of this working group would be Cllr John Fuller (JF), GGe, George Graham (GGer), Cllr John Beesley (JB), Jon Richards (JR), and Mark Wynn (MW). The first meeting would be arranged by the Secretariat over the summer.

**ACTION – That the first meeting of the Investment consultation working group be arranged by the Secretariat.**

## Item 6. Cost Control Mechanisms (Paper B)

7. JH introduced Paper B to the Board. The results of the Treasury Cost Control Mechanism were expected in the Autumn and the SAB Scheme Cost Assessment (SCA) process would run in advance of this. The timing of the SAB SCA was important as any outcome from it was meant to be fed into the Treasury process.

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8. It was thought to be unlikely that there would be a breach in this instance. There were several factors contributing to downwards pressure on elements within the cost control mechanism but equally the effect of the economic check was likely to at least offset them. During the 2016 SAB SCA process, the Board chose assumptions for the SAB mechanism that were similar to the Treasury's assumptions for their CCM. There would need to be a discussion on whether that should be the case again. A key assumption would be the choice of a discount rate for the SAB SCA.
9. The Secretariat were working with Matt Gurden (MG) from GAD to determine the timelines for providing advice to the Board and when decisions needed to be taken. It was agreed that decisions on assumptions would need to be made through correspondence ahead of the next Board meeting on 4<sup>th</sup> December 2023.

## **Item 7. Code of Transparency Reporting System (Confidential Paper C)**

10. Ona Ehimuan (OE) introduced Paper C to the Board. The Code of Transparency has been a success to date with over 90% of LGPS AUM being managed by signatories to the Code. The data system associated with the Code was launched in March 2020, after the award of the contract for development and management of the system in August 2019. The contract held with Byhiras is coming to an end in August 2024, which required the Board to consider the future of the reporting system.
11. Three potential options were presented to the Board along with the timing, pros, cons and budgetary considerations for each option.
12. The three options were as follows:
  - 1) To allow the current contract to expire in August 2024 and not reprocur a replacement system
  - 2) To activate the clause in the existing contract that permits extension until August 2026
  - 3) To reprocur the system, potentially with some moderate changes, or to procure a new system with potentially different functionalities to the current system.
13. Option 2 would allow extra time for premarket engagement and additional consideration of the future of the system. Option 2 would also not incur additional costs which had not been allowed for in the proposed SAB budget.
14. Though the Code had been a success to date, the take up of the system by practitioners was lower than hoped and the Secretariat were carrying out a series of roadshows and training sessions to promote better understanding and engagement of the system. As part of these sessions, feedback was being sought on the original purpose of the system and whether any extra functionality would be useful to users, in the future.

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The Board felt it important to understand what feedback was coming from the roadshows, although the Board agreed its preference as to the most appropriate option from the three presented.

**ACTION – That the Secretariat collate and share feedback from the CoT roadshows with the Board in a paper at the next meeting.**

15. At this point RP and JF needed to leave the meeting and JR assumed the Chair.

## **Item 8. Annual Report update**

16. Gareth Brown (GB) informed the Board that the tenth Scheme Annual Report was published on 27<sup>th</sup> June 2023 and invited comments or suggestions for changes in future reports. There were none, and JR (who had assumed the Chair) thanked GB for his work in creating the report.

## **Item 9. Board Budget 2023/24 (Confidential Paper D)**

17. The Board discussed the delayed approval of the 2023/24 Budget and Workplan by the Minister. The Chair informed the Board that he had recently met with the Minister and had a substantive discussion on this issue.

18. JD informed the Board that the Minister had requested alternative options for the 2023/24 budget before making a final decision on which option to approve. The Board discussed and approved the options presented in the paper.

19. It was agreed that there was a need to develop a medium-term financial plan to enable clarity in future years with the aim of reducing late approval of the budget and workplan, and therefore giving more certainty to the Board. JR noted the extra workstreams that would need to be undertaken by the Secretariat given the multiple references to SAB in the investment consultation. It was noted that there may well be a need for additional secretariat resource in future to enable the SAB to deliver on those expectations.

20. It was noted the SAB provided a service that offered high value for money for funds and without a sufficient budget many workstreams would need to be outsourced by individual funds at a far greater individual and total expense than the annual SAB levy.

## **Item 10. Terms of Reference (Paper E)**

21. Becky Clough introduced Paper E to the Board which included a recommendation that the Board's Terms of Reference be updated to amend the minimum number of four meetings per year to three. The Board agreed this change and understood the rationale behind the change.

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**ACTION – That the Terms of Reference be changed and updated on the SAB website.**

## **Item 11. Board and Committee Membership**

22. OE informed the Board that Nick Kirby's second term was approved by the Chair in May 2023. As a non-voting member, Nick's term renewal would not need Ministerial approval. GGe's second term had begun in December 2022 and Cllr Yvonne Johnson's first term would be coming to an end in October 2023. OE asked TC whether voting members would need their second terms approved by the Minister. There was no clear wording on the matter in the current Terms of Reference. It was agreed that further discussion be held on this matter.

**ACTION – That the Secretariat discuss the renewal process for voting Board members with TC**

## **Item 12. Compliance and Reporting Committee Report (Paper F)**

23. MW introduced Paper F to the Board and the contents were noted. It was agreed that the Chair raise the issue of following through on the separation of pension fund accounts and audit delays with the Minister.
24. JD informed the Board that the Minister would be giving evidence to the Levelling Up Committee in its inquiry into financial reporting and audit in local authorities at a meeting on 17<sup>th</sup> July 2023 and a statement was expected shortly thereafter.

**ACTION – That the Chair discusses the separation of pension fund accounts and audit with the Minister.**

## **Item 13. Cost Management Committee Report (Paper G)**

25. GGe introduced Paper G to the Board and the contents were noted.

## **Item 14. Investment Committee Report (Paper H)**

26. Cllr Yvonne Johnson (YJ) introduced Paper H to the Board and the contents were noted.

## **Item 15. AOB and date of next meeting**

27. JDa informed the Board that the DWP and HMT had launched a call for evidence which cited TPR research on Pension trustee skills, capability and culture. This would be open until 5<sup>th</sup> September 2023. It was agreed that the Secretariat would circulate this to the Board.
28. JDa also flagged that the Department for Work and Pensions (DWP) has launched the Taskforce on Social Factors to look at some of the key



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challenges around managing social factors, including the identification of reliable data and metrics.

**ACTION – That the Secretariat circulate DWP and HMT’s call for evidence to the Board**

29. The date of the next meeting is set for 4<sup>th</sup> December 2023.

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LGPS E&W Scheme Advisory Board risk assessment

Likelihood of Risk Occurring				
Rare (1)	Unlikely (2)	Possible (3)	Likely (4)	Almost certain (5)
Less than a 5% chance of circumstances arising OR Has happened rarely / never	5% to 20% chance of circumstances arising OR Only likely to happen once every 3 or more years	20% to 40% chance of circumstances arising OR Likely to happen in the next 2 to 3 years OR Risk seldom encountered	40% to 70% chance of circumstances arising OR Likely to happen at some point in the next 1 to 2 years OR Risk occasionally encountered	70% to 100% chance of circumstances arising OR Likely to happen at some point in the next 12 months OR Risk frequently encountered
Impact if Risk Occurs				
Insignifcant (1)	Minor (2)	Moderate (3)	Major (4)	Extreme (5)
Minimal or no effect on the achievement of Board objectives AND / OR Minimal or no effect on the delivery of Board objectives - Very confident the risk can be improved AND / OR Very achievable objective Very easily influenced Very tolerable / easy to accept - Insignificant reputational damage AND / OR No media attention	Little effect on the achievement of Board objectives AND / OR Little effect of the delivery of Board objectives - Confident the risk can be improved AND / OR Achievable objective Easily influenced Tolerable/ acceptable - Minimal damage to reputation (minimal negative coverage in press or social media)	Partial failure to achieve Board objectives AND / OR Partial failure to deliver Board objectives - Moderately confident that the risk can be improved AND / OR Possible to achieve objective Able to influence Somewhat tolerable - Some reputational damage/ loss of confidence AND / OR Some negative coverage in press/ social media	Significant impact on achieving Board objectives AND / OR Significant impact on delivering Board objectives - Little confidence the risk can be improved AND / OR Unlikely to achieve objective Difficult to influence Out of tolerance but possible to accept - Significant reputational damage/ loss of confidence AND /OR Significant press coverage / significant social media attention	Catastrophic impact on achieving Board objectives AND / OR Catastrophic impact on delivering Board objectives - Almost certain risk cannot be improved AND / OR Unachievable objective Impossible to influence Out of tolerance/ acceptance - Extensive reputational damage (including press coverage)

IMPACT	Risk Matrix					Risk Score		
	5 Extreme	5	10	15	20	25	Risk Score	RAG Rating
	4 Major	4	8	12	16	20	1 - 5	Green
	3 Moderate	3	6	9	12	15	6 - 14	Amber
	2 Minor	2	4	6	8	10	15 - 25	Red
	1 Insignificant	1	2	3	4	5		
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain		
LIKELIHOOD								

**LGPS E&W Scheme Advisory Board risk and mitigation register - for meeting of 4th December 2023**

				CURRENT					TARGET		
Risk Number	Risk Type (b)	Owner (c)	Risk Name / Description (d)	Likelihood	Impact	Risk Score (g)	Impact / Consequences (h)	Controls (i)	Likelihood	Impact (k)	Risk Score (l)
1	Operational	Funds	Problems with administration software development, limited competition in market	3	3	9	Delays in paying benefits, backlogs in processing, enforcement action by regulators	Work with DLUHC to monitor situation	2	3	6
2	Operational	Funds	Personnel and workforce challenges at funds	4	3	12	Poor administration or governance, decline in prestige of scheme	Lobby DLUHC for workforce strategies to be in place. Work with LGA workforce colleagues to make them effective	2	2	4
3	Operational	Funds	Cyber security or cyber attack on pension funds	3	3	9	Funds unable to pay benefits, conduct meetings or agree business.	Promote good cyber strategies for host authorities through LGPS and LGA channels	2	3	6
4	Operational	Secretariat	Failure of LGA hosting arrangements (eg around IT or payroll)	2	3	6	Secretariat unable to fulfill functions or decline in productivity	Engage with LGA corporate and management groups	1	3	3
5	Operational	Secretariat	Key person risk	2	3	6	Lack of expertise in advice and general poor service to the Board	Adequate notice periods in place to ensure timely succession planning and handover.	1	3	3
6	Financial	Secretariat	Secretary of State does not sign off budget	2	2	4	Unable to collect levy from funds, which could impact on payment of on-going commitments	Early submission of budget proposal to DLUHC to allow any issues to be addressed. Maintain adequate reserves.	2	2	4
7	Financial	Secretariat	Significant number of LGPS funds do not pay levy contribution	3	4	12	Unable to deliver project work and training. Salary costs not covered.	Early billing, chasing of levy and use of political channels to escalate late payments. Reserves allow for some contingency.	2	3	6
8	Financial	Pools	Failure or closure of pool company or operating company	2	4	8	Extra costs and distraction from core purpose, risk of trapped assets	Good governance in operation of company. Monitoring and exit planning where unavoidable. Build consideration of this into model and reflect in any statutory guidance.	2	3	6
9	Financial	Funds	Cash flow difficulties for funds	2	4	8	Forced sale of assets causes swift reduction in funding levels	Work with GAD and fund actuaries to monitor situation and implement appropriate s13 recommendations	2	2	4

10	Financial	Secretariat	Cost control mechanism outcome requires unacceptable changes to benefits	1	4	4	Disputes between employer and member representatives, possible breakdown in relationships at SAB	Effective dialogue and early action to address sustainability issues	1	2	2
11	Financial	Funds	Investment risk for funds	2	3	6	There are risks both in the underlying global financial system (such as climate change) as well as risks in asset allocation and particular asset classes. Reduction in asset values versus assumed growth is a potential consequence.	Work with fund actuaries and GAD to monitor situation and develop effective communications with stakeholders to reassure them	2	2	4
12	Regulatory	Secretariat	Conflict of interest of Board members	3	3	9	Reputational damage. Delays to any procurement process. Loss of confidence in integrity of Board members.	All members to declare any conflicts or potential conflicts. Develop conflict of interest policy	1	3	3
13	Administration	Secretariat	Failure of Board members to obtain knowledge and understanding	2	3	6	Members are unable to properly exercise their function or make bad decisions.	Knowledge and understanding policy in place. Board secretariat provide Board members with necessary support and training.	1	3	3
14	Administration	Secretariat	Breach of equality duties, eg around accessibility of events, websites and documents	5	3	15	Reputational damage and possible legal action/fines	Board commissions equality audit and implements recommendations	3	3	9
15	Administration	Secretariat	Difficulty recruiting and retaining SAB members - in general - to represent specific constituencies - lack of diversity on the Board	3	3	9	Board can't reach quorum or reduced ability to make good decisions. Lack of adequate representation of employer and/or member interests.	Succession planning by ASG	1	3	3
16	Regulatory	Secretariat and Chair	Failure of Ministers to effectively discharge functions	2	3	6	Failure to provide leadership to scheme and implement necessary reforms.	Secretariat to have regular meetings with DLUHC officials and Chair to have regular meetings with the Minister	2	2	4
17	Regulatory	Secretariat	Legislation changed to abolish SAB	1	5	5	SAB has to wind up operations and make staff redundant.	Continue to demonstrate value to the scheme. Carry sufficient in reserves in case of staff redundancy.	1	4	4
18	Regulatory	Secretariat	New legislation: Poorly drafted legislation or drafting errors	3	3	9	Lack of clarity in the regulations impacts the ability to give sound advice, leading to reputational damage and loss of confidence in SAB	Secretariat to continue briefing work around the BDS Bill. Also continue work with DLUHC officials on drafts of LGPS legislative changes. Regular reports from the Technical Group.	2	2	4

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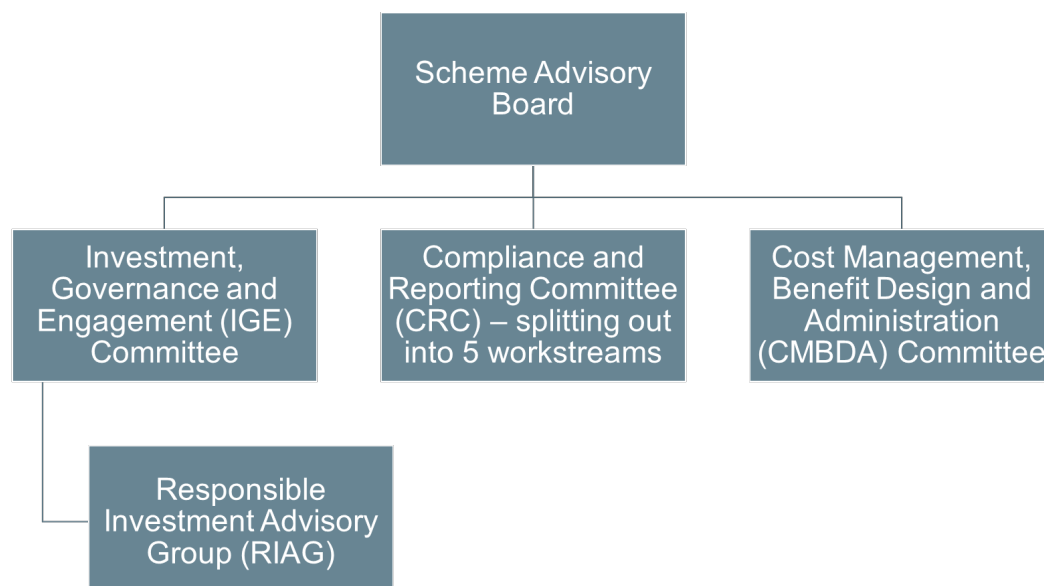
## HYBRID MEETING – 4 DECEMBER 2023

### ITEM 11 – PAPER F

#### TERMS OF REFERENCE AND COMMITTEE SCOPE

##### Background

1. The Board approved a change to its Terms of Reference at the July 2023 meeting to reduce its meeting frequency from four to three times a year. The Terms of Reference has been updated on the Board website.
2. It was also agreed that the Terms of Reference for all of the Committees would be similarly updated, and a revised Terms of Reference has been agreed at each Committee to change meeting frequency. Alongside this, the Secretariat have considered whether it is now time to undertake a broader review of the Board's Terms of Reference, as well as the Committees' Terms of Reference, names, workplans and remit.
3. Within the Committees' workplans it is acknowledged that there could be some overlap between their work; this is becoming particularly apparent now that the Compliance and Reporting Committee (CRC) has a more established workplan and remit. This wasn't the case the last time that the Committees considered whether their work areas may overlap with the CRC's work.
4. There appear to be overlaps with the CRC's work areas with both the Cost Management, Benefit Design and Administration Committee (CMBDA) and Investment, Governance and Engagement Committee (IGE).
5. The current committee structure is below:



6. The Secretariat believe that a more comprehensive review of all Terms of Reference and the Committee structure should now be undertaken, to ensure the most effective structure going forwards. The topics being covered in each of the recently agreed Committee workplans are confirmed below, for interest.

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## **Cost Management Benefit Design and Administration committee workplan topics for 2024**

- McCloud
- Gender Pensions Gap
- Surpluses Working Group
- Exit Pay Reforms
- Survivor benefits
- Section 13 report
- Pensions Dashboards
- Optant outs
- New Fair Deal

## **Investment, governance, and engagement committee (IGE) workplan topics for 2024 [including Responsible Investment Advisory Group (RIAG) ]**

- Code of transparency compliance, and compliance system
- Investments consultation / pooling
- Climate risk reporting
- Increased engagement with the private markets sector
- Sharia compliance

## **Compliance and reporting committee (CRC) workplan topics for 2024**

- Annual report guidance
- Audit issues and guidance
- Funding strategy statement guidance
- Knowledge and skills
- Good Governance

7. The Secretariat proposes to bring to the next Board meeting suggested changes to the Terms of Reference of the Board and its Committees, as well as any proposed changes to Committee names and remits. These proposals will be shared with the relevant Committees at their next meetings.

**Recommendation – that the Board agrees for the Secretariat to proceed with a review of all Terms of Reference, as well as Committee names and remits.**

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# LGPS EW SAB Cost Control Mechanism - 2020 valuation

## Introduction

The attached Annex summarises the assumptions proposed for the initial calculations of the SAB cost control mechanism for the 31 March 2020 valuation of the LGPS EW. This summary is based upon CMBDA discussions and includes an alternative discount rate assumption to allow SAB to consider the effect of the discount rate on the outcome of the cost control mechanism.

The summary also includes the assumptions used to set the original target cost, the initial fund and for the 31 March 2016 valuation. In the financial assumptions, the real discount rates are the most appropriate figures to allow comparison between the various assumption sets.





## Annex: Assumptions

	Target overall cost = 19.5% <sup>1</sup>	Initial fund at 31 Mar 2014	Overall cost at 31 Mar 2016	Overall cost at 31 Mar 2020	Alternative discount rate at 31 Mar 2020
<b>Financial assumptions<sup>2</sup></b>	<b>p.a.</b>	<b>p.a.</b>	<b>p.a.</b>	<b>p.a.</b>	<b>p.a.</b>
Nominal discount rate		5.06%	4.86%	4.86%	4.45%
Rate of pension increases		2.00%	2.00%	2.00%	2.00%
Rate of general pay increases	N/A	3.50%	3.50%	3.50%	3.50%
Real discount rate in excess of:					
Pension increases	3%	3.00%	2.80%	2.80%	2.40%
Long-term pay increases	N/A	1.51%	1.31%	1.31%	0.92%
<b>Mortality assumptions</b>					
Baseline mortality	Based on LGPS experience up to 2009-11	In line with 2013 valuation <sup>3</sup>	In line with 2016 valuation <sup>4</sup>	In line with 2020 valuation	In line with 2020 valuation

<sup>1</sup> See GAD letter to DCLG dated 30 May 2012

<sup>2</sup> Note there are no short term financial assumptions in the SAB CMP

<sup>3</sup> <http://lgpslibrary.org/assets/othergov/2013VRep.pdf>

<sup>4</sup> [LGPS 2016 Valuation Advice on Assumptions \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/444444/LGPS_2016_Valuation_Advice_on_Assumptions.pdf)

The Government Actuary's Department is proud to be accredited under the Institute and Faculty of Actuaries' [Quality Assurance Scheme](#). Our website describes [the standards we apply](#).



	<b>Target overall cost = 19.5%<sup>1</sup></b>	<b>Initial fund at 31 Mar 2014</b>	<b>Overall cost at 31 Mar 2016</b>	<b>Overall cost at 31 Mar 2020</b>	<b>Alternative discount rate at 31 Mar 2020</b>
Future mortality improvements	In line with ONS 2010-based population projections	In line with ONS 2012-based population projections	In line with ONS 2016-based population projections	In line with ONS 2020-based population projections	In line with ONS 2020-based population projections
<b>Other demographic assumptions</b>					
	Based on LGPS experience up to 2009-11	In line with 2013 valuation	In line with 2016 valuation	In line with 2020 valuation	In line with 2020 valuation
Commutation (pre-2008 service)	N/A	N/A	N/A	N/A	N/A
Commutation (post-2008 service)	23.2% of pension commuted (65% of HMRC maximum)	23.2% of pension commuted (65% of HMRC maximum)	23.2% of pension commuted (65% of HMRC maximum)	In line with 2020 valuation: 20% of pension commuted	In line with 2020 valuation: 20% of pension commuted
50/50 take up	10% of all members take the 50/50 option, and that all those taking the option earn less than £21,000	N/A	5% of all members take the 50/50 option	1% of all members take the 50/50 option	1% of all members take the 50/50 option
<b>Benefit design</b>					
CARE revaluation – first revaluation applied to benefits accrued each year	At end of following year	At start of following year	At start of following year	At start of following year	At start of following year

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## **HYBRID MEETING – 4 December 2023**

### **ITEM 14 – PAPER H**

#### **COMPLIANCE AND REPORTING (CRC) COMMITTEE**

##### **Workplan update – summary of workstreams**

1. The committee's five workstreams have made considerable progress since the last Board meeting and the Department for Levelling up, Housing and Communities (DLUHC) have confirmed a preferred timeline to produce the guidance documents required by the workstreams. A high-level workplan of upcoming tasks and associated timelines has been drafted. Is it unknown at present, whether the appointment of a new minister will impact on any timetables previously discussed with DLUHC. Progress on each of the five workstreams is covered in this report.

##### **Annual Report guidance**

2. The workstream have reviewed the existing guidance and considered the areas that should be retained, removed, or updated. The secretariat is working with DLUHC to incorporate the relevant aspects into the new guidance following the release of the response to the investments consultation on November 22<sup>nd</sup> 2023.
3. The Secretariat has also obtained feedback from seventeen funds and attended pension officer groups to obtain feedback on the administration Key Performance Indicators (KPIs) within the current guidance. Using this feedback existing KPIs have been developed and new KPIs have been created to better reflect the scope and scale of administration work.
4. It is DLUHC's ambition to publish the annual report guidance by March 2024. To achieve this, the new guidance will be taken to the CRC meeting on 12th February 2024 for approval and will also require approval at CIPFA's Public Finance Management Board on 22 February 2024.

##### **Audit issues workstream**

5. Unfortunately there hasn't been any progress on finding an appropriate legislative vehicle to change primary legislation to allow for the separation of pension fund accounts, and therefore audits, from the administering authority accounts in England. It was hoped the Audit, Reporting and Governance Authority (ARGA) Bill could be a potential legislative vehicle, but this was not included in the Kings Speech on November 7<sup>th</sup> 2023.

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6. At the Audit Roundtable in July 2023, the attendees agreed that it would be useful to produce guidance that would set out the timeline and information flow throughout a triennial valuation period. This would aid understanding and signpost the different parties, and in particular auditors, to where they should be requesting the information that they need. A specification for the guide has been written by the Secretariat and shared with the workstream, who have agreed the specification. Discussions are ongoing with the Institute of Chartered Accountants in England and Wales (ICAEW) to determine how the cost of producing the guidance will be met. The SAB budget for the current year has been agreed but did not include this work therefore, it is hoped that funding could be found externally from interested parties. A further meeting of the Audit Roundtable group is to be arranged for the new year.

## **Knowledge and skills**

7. Following on from the knowledge and skills survey issued in March 2023, it was agreed that the Secretariat issue a follow up survey targeted at Pensions Committee and Board members. The survey opened on 13 October 2023 and the closing date was extended by the secretariat from 29 October 2023 until 6 November 2023 to allow more time for responses. The survey asked for feedback from Pension Committee and Board members for their experience in obtaining the required knowledge and skills required for their role. The survey received 262 responses and results are to be discussed and next steps identified at the next workstream meeting on December 7<sup>th</sup> 2023.

## **Good Governance and Administration workstream**

8. Progress over the summer has been encouraging as the Good Governance and Administration (formerly named the Administration, Communications and Governance workstream) has been working identifying updates required to the 2008 statutory governance guidance which is now very out of date and needed to be rewritten. The workstream have collated areas to be covered in the new guidance, incorporating the 2021 Good Governance recommendations made by SAB to DLUHC. A provisional timeline is in place in the CRC workplan to consult on draft governance guidance in early 2024.

## **Funding Strategy Statement (FSS) guidance**

9. The working group has met twice over the summer and necessary changes and gaps within the current guidance have been identified. Confirmation is now required from DLUHC on the next steps, including the drafting timetable and method of production. The group will meet again once a timetable and method of drafting the guidance is

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confirmed, but it is expected the FSS guidance would be delivered after the good governance and annual report guidance. It is expected that the new FSS guidance should be ready in good time before the next valuation, to give funds enough time to prepare.

**Recommendation – that the Board notes the progress made by the CRC on each of the five workstreams set out above**

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## **HYBRID MEETING – 4 December 2023**

### **ITEM 15 – PAPER I**

#### **COST MANAGEMENT, BENEFIT DESIGN AND ADMINISTRATION COMMITTEE**

#### **CHAIR'S REPORT FROM MEETING – 30 October 2023**

##### **Cost Control Mechanism (CCM)**

1. The Committee were informed that centrally set assumptions had been set out in Treasury Directions in late August, and scheme specific assumptions had been shared with the Board. It was expected that there would be draft results for LGPS E&W before the end of the calendar year. The Committee were given high level information on the scheme experience results that would be contributing to the valuation and were invited to comment.

##### **Scheme Cost Assessment process**

2. GAD introduced a paper that gave advice on the different approaches and assumptions which could be set for the 2020 SAB scheme cost assessment process. The Committee agreed to adopt a similar set of assumptions to those used for the HMT cost management process. It was also agreed that the preferred discount rate to use was the 2016 SCAPE rate. Matt Gurden from GAD has provided final advice, which the Board has considered as item 13 – Paper G in this meeting (December 4<sup>th</sup> 2023).

##### **Gender Pensions Gap working group**

3. A working group to determine the next steps for the Board following the publication of [GAD's Gender Pensions Gap report](#) had been established and met for the first time on 9 October 2023.
4. The group discussed various reasons and policy issues affecting the GPG. The next steps for the group were as follows:
  - a. Investigate feasibility of changes to regulations to extend the deadline for scheme members to elect for Shared Cost Additional Pension Contributions
  - b. Plan specific communications needed for employers on the GPG to raise awareness of the specific issues which impact the GPG within the LGPS regulations, particularly during scheme member life events

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- c. Work with LGA workforce team on increasing awareness of the GPG and identify the policy solutions which could have a positive impact
- d. Continue the discussions with DLUHC on the progress of New Fair Deal and impact of outsourcing on the GPG

## **Surpluses working group**

- 5. The working group was convened to discuss the issues that could arise from improved funding levels at the 2022 valuation, with many more funds being in surplus. The group met for the first time on 4 October 2023. The discussion focussed on the impact of surplus on employer contributions, on investment and funding strategies, and any SAB communication needed for employers and members (and their representatives) in response to this position.
- 6. The next steps were as follows:
  - a. To produce a statement from the Board on the surplus issue (see Item 7 on the agenda)
  - b. To liaise with DLUHC to investigate if any further guidance on employer flexibilities in the LGPS Regulations is needed.
  - c. To discuss the surplus issue at the SAB LGPS Live event on December 6<sup>th</sup> 2023.

## **Opt-out Monitoring**

- 7. Two Freedom of Information (Fol) requests have been submitted to the Pensions Regulator (TPR) to request the opt out information held by TPR which is submitted by all LGPS employers in their annual auto enrolment compliance returns. TPR have declined to offer that data – despite the request being clear that individual data was not required, just scheme-level data. The Secretariat will instead issue a survey to employers using the contacts held by the LGA Workforce team. This survey would cover a large majority of LGPS employers (approximately 80% of membership) but not all. The Secretariat could also use this survey of employers to obtain views, not just opt out data, but also on views around the importance of the LGPS in recruitment and retention.

## **McCloud**

- 8. Regulations were laid on 8 September 2023 and were effective from 1 October 2023. DLUHC issued an initial policy document which set out how cases should be prioritised, with the final version expected in 2024 after a review by the McCloud guidance working group and a consultation. The LGA had produced and circulated member communications in September 2023 and has a dedicated page on McCloud on the LGPS member website. Content which funds could use

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for a newsletter to scheme members on the issue was being worked on. The LGPS team delivered a workshop at the Pensions Managers' Conference in Torquay in November and would be holding webinars on the issue on 7<sup>th</sup> and 20<sup>th</sup> December 2023.

## **New Fair Deal**

9. The SAB Chair, Councillor Roger Phillips, had recently written to the [former] Minister requesting that DLUHC issue a response to the New Fair Deal consultation which closed in 2019. It was confirmed by the Department that the letter had been received and would be responded to in due course.

## **Committee Workplan**

10. The Committee was presented with a workplan detailing the key workstreams expected over the next calendar year. The Committee workplan will need approval from the Board and can be found at Annex A.

**Recommendation – that SAB notes the progress made by the Committee on the issues set out above, and approves the Committee workplan detailed at Annex A (separate confidential paper).**

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## HYBRID MEETING – 4 December 2023

### ITEM 15 – PAPER I – ANNEX A

#### CMBDA COMMITTEE WORK PLAN FOR 2024

##### Background

1. The Terms of Reference for this Committee state that a workplan must be developed and submitted for approval to the Board on an annual basis. The workplan will be flexible and respond to matters as they arise but should give an overview of the key workstreams associated with the Committee. The workplan below details the key workstreams expected for the Committee in 2024.

##### Workplan Items

2. **McCloud** is expected to remain a major workstream over the coming year. The LGPC team is working closely with DLUHC to develop another set of regulations, as well as further statutory and actuarial guidance from GAD. There are also still issues on the teachers' excess pension issue to be resolved. Timescales on this workstream are yet to be confirmed.
3. The **Gender Pensions Gap** reports published by GAD have led to the convening of a working group to explore what the Board's next steps should be. The working group met for the first time on 9 October and while the group is likely to finish its work before the end of this financial year, we expect there to be actions that will continue to be worked on in 24/25. Indeed, given the scale of the disparities identified, it should be expected that work on this area will continue for some time.
4. Many funds are now finding themselves in a position of notional surplus. As a response to this, the Board has convened a **Surpluses working group** to determine whether any recommendations need to be made to the Minister on managing this new position. The group met for the first time on 4 October and as with the Gender Pensions Group we expect the group itself to wind up before the end of this year, but for the actions to be progressed through the next year. The Committee is expected to discuss any recommendations made with a view to pass on recommendations to the Board before sending to the Minister. It is also expected that information will be fed into the Funding Strategy Statement Guidance working group if needed.
5. We expect that, as it was a manifesto commitment, the Government will come back with proposals on **Exit Pay reforms** at some point next year. It is expected that the Board will need to engage with the policy development leading up to any consultation being issued as well as



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submitting a response. Both would require the input of the Committee. Depending on the content of the proposals, this could be a hugely time-consuming piece of work.

6. We are also expecting the Department to issue a consultation on **survivor benefits** early in 2024. It is expected that the Board will submit a response to this consultation and will require the input of the Committee to shape the response and issue guidance to funds on how to implement any changes. Updates on the consultation will be provided by DLUHC at Committee meetings over the year.
7. Work towards the 2022 **Section 13 report** will be a key workstream in 2024. The timescales associated with this workstream will be largely dependent on the activities of the Government Actuary's Department (GAD) and DLUHC. The Secretariat are just starting their engagement with GAD on emerging findings and recommendations. In the past, the s13 reports have made a number of recommendations for the Board to take forward (e.g. the guidance note on academy conversions).
8. It is also anticipated that the work on **Pensions Dashboards, Opt Outs data monitoring and the implementation of the New Fair Deal policy** will feature in future Committee meetings.

**Recommendation – that the Board approves the Committee workplan**