

Scheme Advisory Board

HYBRID MEETING – 27TH SEPTEMBER 2021 ITEM 3 PAPER A

ACTIONS AND AGREEMENTS FROM MEETINGS OF 10TH MAY AND 1ST JULY 2021

PART 1

ACTIONS AND AGREEMENTS VIRTUAL MEETING HELD ON 10th May 2021 – 1.00pm

PRESENT

Cllr Roger Phillips	Chair
Jon Richards	(UNISON)
Cllr Yvonne Johnson	Scheme Employer Representative (LGA)
Cllr John Beesley	Scheme Employer Representative (LGA)
Cllr Clive Lloyd	Scheme Employer Representative (LGA)
Cllr John Fuller	Scheme Employer Representative (LGA)
Emelda Nicholroy	Scheme Employer Representative (UCEA)
Chris Tansley	Scheme Member Representative (UNISON)
John Neal	Scheme Member Representative (UNITE)
George Georgiou	Scheme Member Representative (GMB)
Garry Warwick	Scheme Member Representative (GMB)
Rachel Brothwood	Practitioner Representative (WMPF)
Nick Kirby	TUC
Gary Delderfield	Legal advisor (Eversheds)
Colin Wilson	Actuarial Advisor (GAD)
Duncan Whitfield	ALATS
Joe Dabrowski	PLSA
Teresa Clay	MHCLG
Bridie McCreesh	UNITE (Guest)
Kimberly Linge	SPPA
David Murphy	NILGOSC
Jeff Houston	LGA - Board Secretary
Jo Donnelly	Deputy Board Secretary
Lorraine Bennett	Senior Pensions Adviser
Bob Holloway	LGA - Pensions Secretary

1. Welcome, apologies and introduction

Cllr Roger Phillips (RP), Chair, opened the meeting by welcoming Bridie McCreesh (UNITE) who attended the meeting as a guest in place of Dick Banks who has retired. Councillor Thornton was seeking re-election at the date of the meeting and was unable to attend.

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The Chair raised the issue about whether the time was right to consider a return to meetings at Smith Square and reminded members that the A to Z Responsible Investment Guide was launched at the LARIS 2021 event on the 28th April. Members were invited to submit relevant case studies to the Secretariat.

Apologies for absence were received from Councillor Andrew Thornton.

2. No conflicts of interest were raised.

3. **Actions and Agreements from meeting of the 8th February 2021 (Paper A)**

The Chair advised members that all action points have been achieved and that all matters arising will be covered in this meeting.

Agreed – that the actions and agreements paper is approved.

4. **2016 SAB Cost management process (Paper B)**

Jeff Houston (JH) informed members that separate briefing meetings for both employer and employee representatives have been held to set out the background and history of both the HMT and the Board's 2016 cost Management process and outline the various options open to the Board to consider in respect of its process and McCloud. The options are described in full at Paper B.

JH also explained that when it met on the 12th April the CMBDA Committee agreed to recommend to the Board that the financial and demographic assumptions agreed previously for the SAB process be carried forward without change. The Board agreed this recommendation.

The Board had a constructive debate around the options with a variety of views expressed. However, there was a general consensus that further work on identifying a spread period more appropriate to the LGPS than the 4 year period used by the HMT process would be useful. The Board agreed to commission GAD to produce McCloud costs against a range of spread periods, to include an indication of the level of 'decay' of those costs at the end of each period.

Given the timings necessary to complete the SAB process prior to the finalisation of the HMT process the Board agreed to meet again to discuss this data prior to the next scheduled meeting, preferably at the end of June or early July.

Agreed – that:-

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- a) the assumptions agreed previously for the initial scheme valuation should be carried forward without change;**
- b) the Secretariat should commission further work from GAD to evaluate the costs associated with spread periods between 5 and 20 years and an indication of the extent to which McCloud liabilities would have decayed at each different spread period, and**
- c) the Secretariat should arrange an extraordinary Board meeting when the above costings are available for discussion.**

5. Climate Change and Reporting Regulations (Paper C)

Bob Holloway (BH) introduced Paper C and informed members that at MHCLG's request the Responsible Investment Advisory Group (RIAG) had been invited to comment on early proposals that may form the basis of a public consultation later in the year.

In particular, RIAG was asked to comment on four areas where MHCLG is proposing to divert from the proposals set out by DWP earlier in the year for trust based schemes:-

- All administering authorities regardless of assets under management to commence reporting from a common start date;
- SAB to prepare a composite annual report;
- No requirement for individual committee members to acquire knowledge and understanding, and
- No provision for fines to be imposed in cases of non-compliance.

The response agreed by RIAG and endorsed by the Investment, Governance and Engagement Committee is attached at Annex A to Paper C.

Teresa Clay (TC) thanked RIAG and the investment committee for their help and advised members that a public consultation would be published before COP26 in November. TC also confirmed that a draft consultation paper would be shared with SAB and RIAG prior to publication.

Councillor Beesley (JB) highlighted potential difficulties around the respective roles that fund authorities and asset pools may need to take in reporting against the TCFD framework and stressed the need for clarity about roles and responsibilities.

Joe Dabrowski (JD) stressed the need for a collective view on how the reporting framework should be managed.

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Councillor Johnson (YJ) said that reporting will be complex and that preparing a composite report as proposed by MHCLG will be difficult given the wide-ranging policies and reporting regimes across fund authorities.

Agreed – that the Board notes the position as set out above.

6. SAB 2021/22 Workplan and Budget

JH reminded members that the 2021/22 workplan and budget agreed by the Board in February had been submitted to MHCLG for approval. The submission includes a request for an additional levy of £80k to cover McCloud costs subject to agreement by the Association of Local Authority Treasurers (ALATS).

Members were advised that MHCLG has yet to respond to the proposed workplan and budget and that the Secretariat will continue to work closely with MHCLG colleagues to expedite a response at the earliest opportunity.

Agreed – that the Board notes the position as set out above.

7. Cost Management Committee Report (Paper D)

George Georgiou (GG) presented Paper D and explained that the committee meeting on the 12th April had focussed primarily on the Board's 2016 cost management process.

In particular, members were advised that the committee had raised concerns about the preparedness of software providers to provide the necessary tools to enable fund authorities to implement the agreed McCloud remedy.

8. Investment Committee Report (Paper E)

YJ began by thanking Councillor Robert Chapman for Chairing the meeting on the 18th January in her absence.

Members were informed that the committee had considered the five separate consultations set out in Paper E and in two cases has asked RIAG to prepare draft responses for the committee to consider. YJ also informed members that on the committee's behalf RIAG had also agreed a response to the LGPS All Party Parliamentary Group's call for evidence on Just Transition.

The committee was also invited to consider recommending to SAB that the position of scheme member representatives in LGPS asset pools should be reviewed.

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9. AOB and date of next meeting

BH referred to the LARIS 2021 responsible investment seminar held on the 28th and 29th April organised jointly between DG Publishing and SAB and reported that 77% of attendees voted the event as being either excellent or very good.

BH also advised members that at the date of the meeting twelve SAB levy invoices remained unpaid, of which ten relate to London Borough funds. YJ agreed to raise the matter with the funds directly.

The Chair invited comment on whether future Board meetings should once again be held at Smith Square. Given the August holiday period and the need for a meeting in late June/early July to discuss GAD's new costings on spread periods, members agreed that the meeting scheduled for the 2nd August should be postponed to September.

PART 2

SPECIAL VIRTUAL MEETING HELD ON 1st JULY 2021 – 13.00

Present

Cllr Roger Phillips	Chair
Jon Richards	(UNISON)
Cllr Yvonne Johnson	Scheme Employer Representative (LGA)
Cllr Clive Lloyd	Scheme Employer Representative (LGA)
Cllr John Fuller	Scheme Employer Representative (LGA)
Cllr Andrew Thornton	Scheme Employer Representative (LGA)
Emelda Nicholroy	Scheme Employer Representative (UCEA)
Chris Tansley	Scheme Member Representative (UNISON)
John Neal	Scheme Member Representative (UNITE)
Rachel Brothwood	Practitioner Representative (WMPF)
Gary Delderfield	Legal advisor (Eversheds)
Colin Wilson	Actuarial Advisor (GAD)
Joe Dabrowski	PLSA
Teresa Clay	MHCLG
Bridie McCreesh	UNITE (Guest)
Kimberly Linge	SPPA
Michael Scanlon	GAD
Brian Allen	GAD
David Murphy	NILGOSC
Jeff Houston	LGA - Board Secretary
Jo Donnelly	Deputy Board Secretary
Lorraine Bennett	Senior Pensions Adviser

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Apologies for absence were received from Councillor John Beesley, George Georgiou, Nick Kirby, Duncan Whitfield, Gary Warwick, David Murphy and Bob Holloway

Background

1. The Board held a special single issue meeting on 1st July 2021 following a discussion on the SAB cost management process and McCloud at the Board meeting on the 10th May.
2. At the May meeting the Board requested further information from GAD in respect of both the spreading and the 'decay' of McCloud costs.

GAD further work on McCloud costs

3. GAD was asked to provide a range of costs against a scale of spreading periods. This has been completed for periods from 4 years (the HMT proposed spread period) to 20 years (LGPS funds must report the % of liabilities spread over longer than 20 years in the Section 13 dashboard section of their valuation reports). The results forecast that any spread over 8 years would result in a total cost below the 19.5% target.
4. GAD was asked to identify the 'decay' of McCloud costs over time. This is difficult to achieve given the uncertainty on future pay movements which drive such costs, therefore a proxy of a forecast of when qualifying members would leave the scheme has been used. The results forecast that on taking an average by group all* qualifying members would have left within 16 years with the majority (60%) leaving within 10 years.

*There would still be some members in service within the longest serving group but based on average service the group would no longer be increasing the costs of McCloud

Next steps for the SAB cost management process

5. The Board then moved to discuss agreement on the following matters:
 - The time-period to be used, taking into account the GAD modelling on spread and decay as provided.
 - Requesting that GAD finalise figures based on the above spread period.
 - The approach to government assuming a small shortfall in the scheme costs which would require the consideration of changes to benefits on a 'may' basis i.e. the Board could recommend changes but is under no obligation to do so.

Recommendations

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6. The Board agreed the following based on recommendations made in the report which was taken on the day:
- i. A spread period of 10 years, this being the point at which 60% of qualifying members are expected to have left the scheme.
 - ii. Subject to final figures from GAD indicating a small shortfall in costs against the 19.5% target, a recommendation to change benefits would not be made under this process. This would be in part a recognition that having to backdate any changes to April 2019 would be an additional burden on already overstretched administration teams.
 - iii. Inform government that the Board intends to revisit third tier ill health and contributions of the lowest paid via a separate process, with the objective of bringing forward recommendations in these areas for future scheme changes.
 - iv. In its communication with government the Board clarifies that exercising its duty to complete this process does not diminish the concerns it has with regard to the manner by which McCloud costs have been included within the cost control mechanism.
 - v. This communication to also make a neutral reference to the ongoing Judicial Review process with regard to the inclusion of McCloud costs in the overall cost control mechanism.

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