

19 April 2018**Agenda Item: 11**

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS AND HR

UPDATE ON THE LOCAL GOVERNMENT SCHEME ADVISORY BOARD

Purpose of the Report

1. The purpose of this report is to provide the Pension Committee with an update on the activities of the National Local Government Scheme Advisory Board.

Information

2. The Local Government Scheme Advisory Board is a body set up under section 7 of the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations (LGPS).
3. In 2013 the Board was set up in 'Shadow' or pilot form in order to test the format, terms of reference, membership and committees prior to the formalisation of these items in the LGPS Regulations. On 1st April 2015 the board was established as a statutory body, and the formal membership was confirmed early in 2016 with non-voting members and advisors added in the summer of the same year.
4. The purpose of the board is to be both reactive and proactive, and seeks to encourage best practice, increase transparency and co-ordinate technical and standards issues. It will consider items passed to it from the Department of Communities and Local Government ("DCLG"), the board's sub-committees and other stakeholders as well as items formulated within the board. Recommendations may be passed to the DCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.
5. The board will from time to time be asked by the local government minister to develop options for scheme developments. For example in 2013 it was asked to assist with the process of reform which led to proposals on investment pooling.
6. As well as responding to requests from government the board can also develop options and recommendations of its own in order to improve the efficiency and effectiveness of the scheme. This has included recommendations to clarify regulations and initiatives outside of the regulations such as investment cost transparency.
7. Finally the board can play a vital role in providing a route for ideas for development from the various stakeholders in the LGPS and a conduit for feedback from government to those ideas. In doing so it seeks to work closely with existing LGPS forums such as CIPFA Pensions Panel, the LGPS Technical Group and the Local Authority Pension Fund Forum.

Current Work Activities of the Scheme Advisory Board

8. The Scheme Advisory Board Website is: www.lgpsboard.org/
9. The last Board Meeting was held on the 16 November 2017 and the main actions points and agreements included:-

Markets in Financial Instruments Directive (MiFID II)

10. MiFID II is concerned with the framework of trading venues/structures in which financial instruments are traded.
11. The secretariat planned to develop guidance to cover communication between investment managers and prospective default retail LGPS clients. The guidance will be co-authored by the Investment Association and legal advisors.

Scheme Advisory Board (SAB) 2017/18 Budget/Levy

12. The Board agreed that a small increase in the levy should be recommended to the minister for approval, this has now been agreed and the Nottinghamshire Pension Fund will be required to pay its contribution alongside other LGPS funds.
13. At its meeting in November the Board agreed to recommend a total levy for 2017-18 across all funds of £405,500 to the Secretary of State. This amount equates to 21 pence per active member as reported in the 2017 SF3 return. This compares to 24 pence in 2015-16 and 20 pence in 2016- 17.
14. The Nottinghamshire Pension Fund has been asked to make provision for an amount of £9,149 in respect of the 2017-18 levy. This amount may change when the levy is formally agreed and notices are dispatched, hopefully in April. However it has been indicated by the board that any change would be a reduction in the amount of contributions paid by the Nottinghamshire Pension Fund.

Implications of the Brewster/ Walker Judgement

15. The Board agreed that a letter from the Chair should be sent to the Local Government Minister and the Chief Secretary to the Treasury. This letter would recommend a move to equalisation of future post-retirement benefits and outline plans to begin pre-emptive work on the cost of back dating following recent legal judgements. In addition, support would be sought from other public service pension scheme advisory boards.
16. Nominated co-habiting partner survivor pensions were introduced into the LGPS from 2008. From April 2014 the requirement for a nomination form to be completed was discontinued.
17. Challenges to the requirement for a nomination form for deaths occurring between April 2008 and 31 March 2014 (inclusive) were highlighted at a national level through the Brewster v Northern Ireland LGPS case, where in 2012 the High Court judgement to allow payment was overturned by the NI Court of Appeal in 2013. In February 2017 the Supreme Court then ruled that a pension should be paid.
18. In August 2017 the DCLG wrote to all LGPS pension managers to advise that they supported payment but would not commit to either providing regulatory change or legal advice.

19. Subsequently many Funds including Nottinghamshire deferred their decision making, awaiting a case currently going through the Courts (Elmes v Essex CC) or sought their own legal advice. Following the judgement the Administration Authority decided to allow payment given that Nottinghamshire had one case that required a decision.

Academies/3rd tier employers' project – update and next steps

20. Following the PwC report, the academies project had entered into its second stage. Following discussion with DCLG and DfE a proposal was made and agreed to form two working groups, administration and funding, based on the high level objectives agreed by the Board.
21. The 3rd tier project work on identifying issues with stakeholders had been awarded to Aon Hewitt. Interviews and surveys are underway and an interim report to the Board is expected at the next meeting in the first quarter of 2018.
22. The key element of this project is information gathering and, on 27 November 2017, the SAB launched three surveys for completion by:
- LGPS Administering Authorities
 - Tier 3 Employers
 - LGPS members employed by tier 3 employers
23. The surveys were due to close on 31 December 2017. However, in early January 2018 administering authorities were informed that this date was being extended to 31 January 2018. Administering authorities were asked to forward the message onto their 3rd tier employers.

Cost Management Benefit Design and Administration (CMBDA) Committee Update

SAB cost management assumptions

24. The Board noted the recommendations made by the Committee on the assumptions needed for the Board's 2016 cost management mechanism valuation. All recommendations made were agreed by the Board apart from pay growth, discount rate and 50/50 take up rate. These would be further considered by the Chair of the Committee assisted by the Board's actuarial adviser.

Take Up of 50/50 option

25. The results of the 50/50 survey indicated that there appeared to be a general lack of awareness of the option among those completing the survey. It was agreed that a campaign to raise awareness and increase take up be implemented during 2018.

Single Stage IDRP arrangement

26. The Committee had agreed not to recommend any change from the existing two stage IDRP arrangement but to invite the Board to agree to work being undertaken to examine ways in which the current arrangement could be improved and streamlined.

III-health working group

27. Investment, Governance and Engagement Committee had agreed that the working group should be re-convened and report back to the Board in 2018.

Responsible Investment Guidance

28. It was agreed that once a draft of the guidance on responsible investment was complete it should be sent to administering authorities for comment.

Cost Transparency/Procurement Working Group

29. Over 25 investment managers had signed up to the LGPS Code of Transparency, and the FCA's Institutional Disclosure Working Group (IDWG) had begun working on a template to cover all institutional investors using the LGPS as a basis for development.
30. The procurement working group had met and drafted a time plan for procuring a third party service; for compliance checking which aims to agree a specification by the second quarter of 2018 and commence the procurement process in the third quarter.
31. The Scheme Advisory Board Website is: www.lgpsboard.org

Other Options Considered

32. It was agreed previously at Pension Committee that an update report be brought to a future meeting.

Reasons for Recommendation

33. This report has been compiled to inform the Pension Committee of the activities of the LGPS Scheme Advisory Board and how they impact on the work of the Administration Authority in its governance of the Nottinghamshire Pension Fund. The implications of the work of the Scheme Advisory Board can then be considered and reflected in the work of the Pension Board and Pension Committee in their work plans.

Statutory and Policy Implications

34. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Data Protection and Information Governance

35. There are none arising directly for the Nottinghamshire Fund as a result of the contents of the report as this is for Member information only.

Financial Implications

36. That the Board note the cost of the Levy approved by the Scheme Advisory Board of £9,149 to be confirmed and invoiced to the Nottinghamshire Pension Fund in April 2018.

RECOMMENDATION

It is recommended:

- 1) That the Pension Committee consider the activities of the Scheme Advisory Board and ensure that the Administering Authority implements the recommendations of the Board once they are formally communicated to Pension Funds.

Marjorie Toward
Service Director – Customers and HR

For any enquiries about this report please contact:

Jonathan Clewes, Pension Manager on 01159773434 or Jon.Clewes@nottscc.gov.uk

Constitutional Comments (27/03/18)

37. The proposal in the report is within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (28/03/2018)

38. The cost of the Levy can be contained within existing budgets.

Human Resources Comments

39. N/A

Background Papers and Published Documents

None

Electoral Division(s) and Member(s) Affected

All