Division(s):N/A

PENSION FUND COMMITTEE – 7 DECEMBER 2012

THE NEW LOOK LOCAL GOVERNMENT PENSION SCHEME 2014

Report by the Assistant Chief Executive and Chief Financial Officer

Introduction

1. This report updates the Committee on the progress towards the implementation of a New Look LGPS from April 2014. In line with the Government's initial timescale for managing the change, we should have had formal consultation on the new Regulations to consider at this meeting. Unfortunately, the Government's timetable has slipped, and it is currently unclear when the consultation document will be published.

2. What this report does cover therefore are the issues arising out of the current Public Services Pensions Bill, plus the proposals on the way forward for cost sharing and scheme governance recently published by the Local Government Association and key Unions.

3. The report also covers the current consultation document from the Government on proposed changes to the Investment Regulations, introduced by the Government to reduce the barriers to LGPS funds investing in infrastructure

Public Services Pension Bill and the New Look Scheme

4. The Public Services Pension Bill, at the time of the drafting of this report, was passing through the Committee Stage in Parliament. The Bill is the Government's direct response to the report of the Independent Public Services Pension Commission, chaired by Lord John Hutton. The Bill sets out the framework for the development of all public sector pension schemes, though the specific details of the changes will be set out in the individual scheme regulations.

5. The key aspects of the Bill are:

   (a) Enabling the creation of new, fairer Career Average schemes
   (b) Linking normal pension ages to the State Pension Age to manage the longevity risk (with exceptions for firefighters, police and armed services where the normal pension age will be 60
   (c) Introduction of an employer cap to protect the tax payer against future changes in cost
   (d) Setting out new requirements for scheme governance, regulation and administration to deliver transparency and accountability

(e) Allowing for transitional protections as necessary.

6. As a framework bill, the aim is to ensure that once enacted, the public service pension schemes can be maintained without the further need for primary legislation.

7. Since publication of the Bill, there has been some concern expressed about the potential implications for the Local Government Pension Scheme. These concerns stem from the framework nature of the Bill, and the lack of flexibility to recognise the key differences between the funded LGPS and the other un-funded public service pension schemes.

8. In particular concern has been expressed about Clause 16 which appears to involve the closure of the current schemes, and therefore the potential risk to accrued benefits, which Lord Hutton’s Commission argued should be fully protected.

9. There is also concern around the nature of the Regulator and the Treasury going forward in the governance of the scheme, and in particular clauses which appear to create the potential for the Treasury to determine key valuation assumptions.

10. The nature of these concerns stem from the potential issues going forward, and the lack of clarity over the Government’s intention behind the current drafting. It is hoped that these concerns will be allayed through clarifying amendments as the Bill passes through the various parliamentary stages, as well as on the publication of the specific changes to the LGPS regulations.

11. In respect of these LGPS Regulations, these were initially due to be published in September 2012, to allow sufficient time for a consultation exercise, before the Regulations went through the necessary parliamentary processes to be in place by March 2013. This was seen as key to enable the various Fund Actuaries to take account of the proposed changes in the LGPS when conducting their Valuation exercises as at March 2013.

12. At the time of writing this report, the consultation report on the draft Regulations has not been published. The delay has been explained in part by the unexpected complexity required as a result of the proposed scheme changes, and in part by the need to ensure consistency with the Public Services Pension Bill. A view has been expressed that delaying the enactment of the new Regulations until June 2013 would still allow sufficient time for the New Look Scheme to be effective from April 2014, and for the impact to be included in the 2013 Valuations.

13. In the meantime, the Local Government Association and the three key local government unions (Unison, GMB and Unite) have published their own proposals, as presented to the Government, on the way forward for cost sharing and scheme governance. A copy of this joint statement is included at Annex 1.

14. This joint statement confirms that it is expected that the Regulations in terms of scheme design will be fully consistent with the previous joint proposals, as discussed by this Committee at its meeting in June 2012. The Statement then sets out 12 points which the parties believe are essential elements in addressing the issues of scheme governance and cost management.

15. Among these key elements is the proposal for a new national LGPS Board consisting of representatives of scheme employers, scheme members, the government and professional bodies. This Board would be responsible for extending best practice, increasing transparency, co-ordinating technical and standards issues, and liaising with the scheme regulator, as well as managing the future cost of the scheme and exploring issues around cost effectiveness of administration and investment arrangements.

16. There are also proposals to review the governance arrangements at local level (i.e. the future of this Committee) with a view to providing for a greater degree of segregation between the Fund and the Administering Authority, and reducing potential conflicts of interest at both Member and Officer level. It is proposed to introduce minimum skills and knowledge levels for local board members, whilst also opening boards up to include representation from fund employers and trade unions.

17. On cost sharing, it is proposed that costs are reviewed every 3 year as part of the valuation process, with proposals to amend the scheme developed by the employers and unions. The Secretary of State would be obliged to take action whenever the movement in costs is greater than 2% in either direction. A working party would be set up to look at the issue of past service deficits.

Consultation on Investment in Partnerships

18. Independent of the New Look Scheme, the Government have recently published a consultation document on proposed changes to the Investment Regulations. A copy of this consultation document is included at Annex 2.

19. The document is clear that its prime purpose is to reduce the barriers to LGPS funds investing in Infrastructure projects. In particular, the Government has been informed that a barrier to future investment is the current restriction that Funds can be invested no more than 15% in partnerships, and this is the favoured financial structure for many infrastructure investment vehicles.

20. The document proposes two alternative courses – an increase in the current limit of investments in partnerships to 30%, or the introduction of a new investment class to allow up to 15% of the Fund to be invested in Infrastructure.

21. The document asks five specific questions where the Government would welcome views. A draft response to these questions is included as Annex 3 to this report.

22. In interpreting this Fund's answer to the 5 specific questions, there is a need to understand the current context. At present, this Fund has less than 5% of its investments in partnerships (mainly to allocations to unlisted private equity) and therefore the current Investment Regulations are not a barrier to investment in infrastructure.

23. A much greater issue for this Fund is the identification of an appropriate investment vehicle which provides investment returns in line with the Fund's requirements, at an appropriate level of risk and cost. The Fund's Independent Financial Adviser is currently reviewing a wide range of investment vehicles which support infrastructure investment. These vehicles also differ across geography, asset types and mix of equity/debt investments. It is proposed that we run a seminar on the issue of infrastructure investment, potentially on the afternoon of the March Committee meeting.

24. A current hot topic within the widespread infrastructure debate at present is the investment in housing, and the investment in local infrastructure projects. This is matched in the current Government consultation in question 5, where the Government is looking to identify means to facilitate investment in infrastructure specifically in the United Kingdom. This raises again the nature of the fiduciary duty of the members of the Pension Fund Committee, (and the potential conflict of interests question picked up in the joint proposals on Scheme Governance discussed above). We would also seek to address this issue as part of the planned seminar.

25. The proposed response to the Government's consultation document at Annex 3 does include much of this context, as well as the response to their specific 5 questions.

RECOMMENDATION

26. **The Committee is RECOMMENDED to:**

(a) **note the latest position on the New Look LGPS 2014 as detailed in this report;**
(b) **agree the response to the Government Consultation on Investment in Partnerships based on the draft at Annex 3; and**
(c) **agree to hold a seminar on infrastructure investments, provisionally to be held on the afternoon of the 8 March 2013 Pension Fund Committee.**

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Background papers: None
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