LGPC MEETING

WEDNESDAY 16 JANUARY, 11AM

18 SMITH SQUARE, WESTMINSTER, LONDON, SW1P 3HZ

		ITEM	TIMINGS
1.	APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST		11:00
2.	TRIBUTE TO CLLR IAN GREENWOOD		11:05
3.	MINUTES OF THE LAST MEETING – 10 October 2018	ITEM A	11:10
4.	MATTERS ARISING		11.20
5.	REGULATIONS UPDATE E&W	ITEM B	11:30
6.	SAB REPORT E&W	ITEM C	11:45
7.	REGULATIONS UPDATE SCOTLAND	ITEM D	12:00
8.	REGULATIONS UPDATE NORTHERN IRELAND	ITEM E	12:10
9.	TRAINING AND CONFERENCE UPDATE		12.20
10.	ANY OTHER BUSINESS		12:25
11.	DATE OF NEXT MEETINGS TBA		12.35

ITEM A

LGPC MINUTES
MEETING HELD ON 10 OCTOBER 2018
AT 18 SMITH SQUARE, WESTMINSTER, LONDON, SW1P 3HZ

PRESENT

Cllr D Le Gal	Chair & Scheme Advisory Board
Cllr G Edwards	LGA
Cllr A Waters	LGA
Cllr J Fuller	LGA
Cllr D Jones	LGA
Cllr A Paynter	LGA
Mr K Gerard	Technical Group rep – Dial in
Ms N Mark	Scheme Advisory Board adviser
Mr D Murphy	Northern Ireland
Ms K Linge	Scotland
Secretariat	
Mr J Houston	LGPC
Ms L Bennett	LGPC
Ms E English	LGPC

1. APOLOGIES

Apologies for absence were received from Cllr D Renard LGA, Cllr S Taylor and Cllr S Blackburn. Two new members, Cllr Jones and Cllr Paynter, were welcomed to the meeting and introductions were made. No declaration of interest was declared

2. MINUTES

The minutes of the previous meeting held on 27 June 2018 were noted.

3. MATTERS ARISING

Jeff Houston [JH] informed the Committee that Lorraine Bennett [LB] has been promoted to the role of senior pensions adviser and will now take over as Secretary to the Committee. The Committee congratulated Lorraine on her appointment.

Item 4 – Cllr Adam Paynter [AP] informed the Committee that Cornwall pension fund paid an exit credit on 9 October to a cleaning company. The amount of credit paid was small.

4. LGPC BUDGET

[LB] for the benefit of new members gave an explanation of what the LGPC levy entails and presented the key points from Item B, in particular highlighting:

- a provisional budget for 2018/19 was set on the basis that a new training adviser and programme may take some time to bed in, therefore, a prudent target for training income was included.
- following the end of period 6, the Secretariat is now able to project a small surplus at the end of the year. This is mainly due to higher than anticipated projected training income coupled with a vacancy which has been partly covered by consultancy support.
- in light of the above, and in recognition of the continued financial restraint in the sector, it was proposed that subscription should not change from that payable for 2017/18.
- as in previous years the subscription will be collected in proportion to the size of each administering authority.

The Committee formally agreed that the subscription level for 2018/19 is to remain unchanged from 2017/18.

Action: Send the new members the details of the size of funds.

5. REGULATION UPDATE [E&W]

[LB] presented the key points from Item C, in particular highlighting:

- High Court judgment in the case of Elmes v Essex - the judge published his final conclusions on 31 July. In his final conclusions the judge made reference to the impact on childrens' pensions, should a survivor's pension be retrospectively paid. However, he merely stated that if any other claims are underway, or which maybe begun, it is important that any affected children receive independent advice. Where a child's pension is reduced due to the retrospective payment of a survivor payment there is the potential for a legal challenge; however, the likelihood of this happening is low.
- On 3 October, MHCLG opened a consultation on equalising the survivor benefits paid to survivors of same sex marriages and civil partnerships with those paid to widows. The Committee discussed that it would be helpful if statutory guidance is issued when the regulations are made to inform administering authorities how to revisit pensions in payment, CETVs, trivial commutations etc. Widowers' pensions are not being equalised.
- Exit Credits - MHCLG sought clarification from HMRC who have confirmed that there will be no tax charge on the payment.
- Fair Deal – a consultation is expected by the end of the year. The consultation will introduce the concept of fair deal employers to the LGPS - where a staff who are compulsorily transferred will retain access to the LGPS and the scheme employer will continue to be the employer the member was in employment with immediately prior to the transfer. The admitted body route will still be available.
- Employer debt - MHCLG intend to consult on introducing the basic principles set out in Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018 into the LGPS. This would enable employers to defer payment of an exit debt, subject to certain conditions.
- The Pensions Regulator (TPR) proactive engagement with the LGPS - TPR have chosen the LGPS as a cohort for proactive engagement throughout

2018 and 2019 and will be taking deeper regulatory engagement with 10% of LGPS administering authorities. The Committee discussed the burdens being imposed by the Regulator on individual administering authorities along with the threat of enforcement action. It was agreed that the subject should be raised at the Scheme Advisory Board meeting in the afternoon with a view to the asking the Chair of SAB to write to Lesley Titcomb, Chief Executive of TPR setting out the concerns expressed by the Committee.

6. SCHEME VALUTIONS

Jeff Houston [JH] presented the key points for the Committee to note from item D, in particular highlighting:

- Chief Secretary to the Treasury has announced provisional results of the scheme valuations for the public service pension scheme
- Employer contribution rises expected for unfunded schemes from 2019.
- Cost cap breaches are also expected for unfunded schemes resulting in benefit improvements.
- LGPS employer contributions will be set by 2019 fund valuations but cost cap applies and would require benefit improvements.
- SAB process cost cap will be completed first and may impact on HMT cost cap outcome.
- The SAB will discuss the results of the SAB process in the afternoon meeting and will report back at the next meeting.

7. SAB REPORT E&W

JH presented the key points for the Committee to note from Item E, in particular highlighting:

- Section 13 report published - overall a positive report
- Tier 3 employer report published. The report summarises the findings of Aon’s engagement with stakeholders and sets out a wide range of possible options to address the issues raised. It doesn’t include any recommendations. The SAB will now set up a working group to evaluate the options for change and report back.
- Cost transparency – there are currently 91 signatories to the Code, representing an estimated £180bn of assets. On 3 September, the SAB launched a "Code of Transparency compliance system" tender exercise. The tender is to design, build, host pools.
- Separation Project –SAB has invited proposals from interested parties to assist in developing options for change with regard to the separation of LGPS pension funds and their host authorities. The successful organisation will be required to produce a comprehensive report setting out their findings and provide analysis of the two options outlined in the invitation to bid document i.e. separation within existing structures and separation via new structures. An update will be provided at the next meeting.
- Guidance - MHCLG have commissioned SAB to look at whether it would be appropriate for some of the scheme regulations to be sited within statutory guidance in order that they can be more readily amended to keep up to date with developments. They also asked whether the SAB could take on a stronger role to

issue its own guidance which funds would have to have in regard to. The SAB, at its last meeting, agreed to fund additional staffing to cover this work; recommendations are invited by spring 2019.

- Data improvement - the SAB will assist administering authorities in meeting the Pension Regulator's requirements for monitoring and improving data.
- Infrastructure event - MHCLG and SAB are co-hosting an infrastructure event on 15 November 2018.

7. REGULATIONS UPDATE SCOTLAND

The Committee noted the key points from Item F which was presented by Kimberly Linge (KL).

- LGPS (Scotland) 2014 Regulations and subsequent amendments were consolidated into the LGPS (Scotland) 2018 Regulations on advice from the Scottish Government Legal Directorate.
- Transitional regulations will follow – a letter of comfort has been provided to LGPS administering authorities in the meantime.
- Draft amending regulations to correct cross referencing and other minor errors are also underway.
- SPPA have received representation from administrators and fund authorities to address the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 which were last amended on 14 November 2011. The review of these regulations will be a priority.
- Cost cap process – Scotland is a year behind the LGPS in England and Wales and Northern Ireland so any changes arising from the 2017 cost cap valuation will apply from 1 April 2020. SPPA expects that LGPS Scotland may also have breached the cost cap, partly due to the levelling off of increased life expectancy.
- GAD are reviewing actuarial factors and guidance for LGPS Scotland.

8. REGULATIONS UPDATE NORTHERN IRELAND

The Committee noted the key points from Item G which was presented by David Murphy (DM) highlighting the key points:

- Due to the lack of a Minister in Northern Ireland no legislation can presently be made however, the Department for Communities is currently considering if it can make amendments by negative resolution in the absence of the Assembly. A set of amendment regulations has been drafted.
- The LGPS (NI) has breached the floor of the cost-cap by 3.2%. The NI SAB is considering either changing the accrual rate or the revaluation rate. The trade unions side recommends a change to the accrual rate. The Board will meet again before the end of the year to make its recommendation to the Department for Communities.

9. TRAINING AND CONFERENCE UPDATE

The Committee noted the key points from item G which was presented by Elaine English (EE) highlighting the key points:

- Governance conference - is taking place on 17 /18 January 2019 in Bristol. A further circular will be sent out with the programme soon. EE reminded the Committee that if any LGPC members would like to attend they should contact her.
- Fundamentals training is now underway with positive feedback.
- Further training events on Employer Role will be run from March 2019, as well as a new course from April on covering aggregation of LGPS benefits. This will be advertised in the New Year.

10. ANY OTHER BUSINESS

None

11. DATE OF NEXTMEETING

The Committee agree they would like to continue co-ordinate meetings with the SAB meetings. The next meeting date will be confirmed.

* * *

Regulations update (E&W)

1. **Key points to note**
   - LGPS (Miscellaneous Amendment) Regulations 2018
   - Exit credits
   - Fair deal consultation
   - Pensions dashboards consultation

2. **Decisions**

   - The committee is asked to note the contents of the report.

3. **Summary**

LGPS (Miscellaneous Amendment) Regulations 2018
The above regulations were laid before parliament on 18 December 2018 and introduce the changes below:

Survivor benefits

- The equalisation of survivor benefits paid to the survivors of same sex marriages and civil partnership with those paid to widows. The change takes effect from the dates that civil partnerships and same sex marriages became legal in the UK, namely:
  - 5 December 2005 in respect of a surviving civil partner of a member; and
  - 13 March 2014 in respect of a surviving spouse of a same sex marriage with a member.
- MHCLG have confirmed they will issue statutory guidance in due course to assist LGPS administering in implementing the change.
- The guidance will set out the requirement for pensions in payment to surviving same sex spouses and civil partners to be revisited and additional sums paid where due. The Secretariat understand that the guidance will also set out MHCLG's expectation that administering authorities should revisit any transfer out payments and trivial commutation lump sum payments.
- The Secretariat will review the regulations in the coming weeks and publish an impact analysis and an updated survivor benefit table in January. .
- The national Communications Working Group will discuss communicating the changes to scheme members at their next meeting on 15 January 2019 - a verbal update will be provided at the meeting.

General power to issue statutory guidance

- A general power for MHCLG to issue statutory guidance on the operation of the scheme's rules is introduced from 10 January 2019.
- The regulations require that before preparing or revising guidance, the Secretary of State must consult such persons as he considers appropriate.
- Some responses to the consultation expressed a concern about the potential misuse of such a power and the lack of scrutiny and consultation. In its' response to the consultation MHCLG confirm that "*Nothing in statutory guidance*

should change or conflict with the meaning of the regulations, unless the courts require a new interpretation to ensure consistency with the Human Rights Act 1998. The purpose of guidance will be to clarify the content of regulations and maintain an appropriate level of consistency in interpretations of its rules between funds"

Exit credits

- The LGPS (Amendment) Regulations 2018 introduced the requirement to pay an exit credit to exiting employers where, at the exit date, an employer's assets in the fund exceed the liabilities. The requirement applies to exits on or after 14 May 2018.
- The Secretariat is aware that the payment of exit credits is causing some issues for administering authorities, particularly where:
    - a side contractual agreement is in place providing that no exit debt is payable by the employer in the event that there is an exit debt payable upon exit i.e. pass through.
    - contractors are no longer extending contracts/admission agreements but are looking to terminate the contract and re-bid in order to receive payment of an exit credit.
- In order to raise the issue with MHCLG, the Secretariat asked administering authorities for information on the number and monetary value of exit credits that have been paid or are due to be paid.
- At 7 January, 45 administering authorities had responded to the request for information. 26 exit credits have been paid and 18 are due to be paid – the total monetary value of exit credits (both paid and due) is approximately £82.5m.
- In many cases the amount of exit credit being paid far exceeds the amount the employer has paid into the LGPS in employer contributions e.g. an admission body exited a fund on 31 December 2018 with a surplus of £788,000. The employer commenced its participation in the fund on 1 April 2008 and the total employer contribution received were in the region £278,500.
- The Secretariat is meeting with MHCLG on 8 January 2018 to raise the above issue – a verbal report will be provided at the meeting.

Fair Deal

In April 2018, MHCLG confirmed that the Government remain committed to introducing Fair Deal into the LGPS and that they intended to commence a consultation on new proposals for achieving this by the end of 2018.

The consultation was delayed due to competing pressures faced by central government and is now expected early January.

As confirmed at the last meeting, we understand the consultation will propose introducing the concept of 'fair deal employers' within the LGPS. Under fair deal where a scheme employer contracts out a service and compulsorily transfers employees to a service provider, the transferred employees will continue to have access to the LGPS while they remain on the same undertaking.

The consultation will propose that the scheme employer for such transferred members will continue to be the employer the member was in employment with immediately prior to the transfer i.e. the original employer will become a fair deal employer. Fair deal employers shall include within a service contract with the service provider provisions to deal with the requirements of the scheme. These provisions will be set out in guidance and will cover the delegation of scheme employer duties and responsibilities (including payments and administrative functions) as well as risk sharing provisions.

As the scheme employer does not change the employer contribution rate for such members shall continue as before and shall be met on a full ‘pass through’ basis.

Additionally, there would be no issues around exit debts or surpluses, and therefore no need to obtain actuarial calculations at the beginning or end of contracts.

The introduction of a fair deal employer will remove the need for ‘contractor admission agreements’, although we understand that the consultation will propose leaving the admitted body route in place as an alternative.

Pensions Dashboards consultation

- DWP undertook a feasibility study to explore the options for the delivery of online pensions dashboards. The results of that study were released in the form of a government consultation on 3 December 2018. The consultation seeks views on how the government can best facilitate an industry-led delivery of pensions dashboards. The consultation closes at 11pm on 28 January 2019.
- The consultation proposals include:
  - a non-commercial dashboard hosted by the Single Financial Guidance Body (SFGB) together with multiple commercial dashboards hosted by different organisations, in order to improve consumer choice and enable them to use the dashboard that most suits their needs.
  - the establishment of a delivery group convened and stewarded by the SFGB, which would work towards the successful implementation of the technology that will allow pensions dashboards to operate.
  - a single ‘Pension Finder Service’ (PFS) will act as a search engine to find pension schemes linked to an individual.
  - state pension data will ultimately be part of the service.
  - with the consent of the individual, pension schemes will be required in legislation to provide an individual’s data via pensions dashboards.
  - public service pension schemes be given longer lead-in times to prepare their data prior to on boarding. It is expected that the pensions industry will start to supply data to a dashboard, on a voluntary basis, from 2019. The majority of schemes will be on-boarded within 3 to 4 years from the first dashboards being available to the public.
- The Secretariat has met with DWP on several occasions to ensure the interests and views of LGPS administering authorities are represented.

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E&W Scheme Advisory Board

1. Key points to note

- SAB cost management recommendations made to MHCLG
- Bids received for tender exercise for a code of transparency compliance system
- Investment, Governance and Engagement Committee
- New pooling guidance consultation

2. Decisions

- The committee is asked to note the contents of the report

3. Summary

SAB cost management recommendations

- The Board agreed to a set of recommendations to both return the overall cost of the scheme to 19.5% and to achieve the necessary support from both scheme member and scheme employer representatives.
- It was hoped that a consultation would be published by MHCLG before Christmas. However this did not prove to be possible and therefore a note (attached as **annex 1**) on the process and the recommendations was forwarded to administering authorities on 21st December.
- It is still intended for any changes to regulations to be effective from 1st April 2019 even if that requires retrospection.
- Any such retrospection would be challenging for administering authorities and employers particularly in regard to changes to employee contribution rates.
- The HMT cost cap process will proceed once formal acceptance by government of the recommended changes is published. It is important to note that should the changes not be sufficient to prevent a breach as a result of that process then further significant improvements to benefits may be required.

Procurement process for compliance system

- The SAB is currently in the process of procurement for an investment cost transparency compliance and reporting system, for use by administering authorities and their pol companies/asset managers.
- A number of bids for this system were received at the beginning of December and are currently being evaluated by a sub group of Board members.
- A verbal update on the evaluation process will be provided at the meeting.

IORP II Directive

- This directive is due to be transposed into UK law by 19th January 2019.
- The Board's Investment, Governance and Engagement Committee considered the potential impact of the Directive on the LGPS, should Government clarify its application to the Scheme.

- In particular the Committee discussed the potential application of particular articles, namely 5, 8 and 19, depending upon the interpretation of a statutory guarantee.
- It was agreed that the Board secretariat should open discussions with MHCLG to explore appropriate remedies in order to avoid any potential legal challenge.

Pooling guidance

- MHCLG has published draft guidance (attached as annex 2) on pooling for comment by selected stakeholders.
- This guidance builds on that published in November 2015 and July 2017 and seeks to address areas that have been clarified or added via ministerial letters and statements since those dates.
- In particular it seeks to clarify how the split between strategic and tactical asset allocation should be determined and reviewed, how assets should be transitioned or held outside the pool and expectations regarding infrastructure investment.

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ANNEX 1

THIS DOCUMENT DOES NOT IN ANY WAY CONSTITUTE CONFIRMED POLICY NOR DOES IT IN ANY WAY PREJUDGE THE OUTCOME OF ANY FORTHCOMING CONSULTATION PROCESS. IT IS DESIGNED TO GIVE ADMINISTERING AUTHORITIES AND SCHEME EMPLOYERS INFORMATION REGARDING THE PROPOSALS SUBMITTED BY THE LGPS ADVISORY BOARD IN RESPECT OF THE COST MANAGEMENT PROCESS. NO LIABILITY IN ANY FORM CAN BE ACCEPTED BY THE LGPS ADVISORY BOARD OR ANY OF ITS MEMBERS IN RESPECT OF ANY ACTION TAKEN BASED ON THE CONTENTS OF THIS DOCUMENT.

Local Government Pension Scheme Advisory Board SAB Cost Management

Context

1. Cost management for the LGPS in England and Wales is taking place in the context of a public service pension scheme wide cost cap review under HM Treasury directions. In the other schemes indicative outcomes have seen breaches of the cost cap floor requiring benefit improvements in excess of 3% of payroll.
2. The closest comparable public service scheme undergoing the cost cap process this year is LGPS in Northern Ireland which has recently commenced a consultation on a benefit improvement package costing 3.2% of payroll.
3. LGPS in England and Wales has a separate cost management process which is completed prior to finalisation of the HMT cost cap calculations.

Board cost management outcome

4. At the Board meeting of the 10th October it was noted that, subject to agreement by government to return the scheme design to that agreed in 2013 by the employers and scheme members in relation to the annual revaluation of CARE benefits, the outcome of the Board's cost management process was a total scheme future service cost of 19%. As the target for the process is 19.5% the Board agreed to consider recommendations to return the total cost back to the target.
5. It was further agreed that a Board sub group consisting of the Chair, Vice Chair and an employer representative would consider a package of benefit improvements sufficient to return the total cost back to 19.5% and such further changes to employee contributions within that total cost necessary to obtain the support of both employer and employee representatives of the Board.
6. The Board agreed that options for changes to benefits should be limited to Third Tier Ill Health, Lump sum death grants, Early Retirement and Commutation. These being elements which were both of interest to scheme members and affordable within the 0.5% target cost increase. Any changes to employee contribution rates were to be targeted principally at the lowest bands but also seeking to address existing anomalies with regard to pension tax relief at both the personal and higher rate allowance points.

Consideration of options

7. In order to provide the Board sub group with the information necessary to come to a view a small technical group consisting of representatives of both scheme member and employers as well as the secretariat was formed. This group received actuarial input (in the form of technical advice from MHCLG's GAD adviser and independent actuarial advice from the Board's actuarial adviser) and legal views from Eversheds (in particular with regard to potential discrimination issues) and considered a number of options around the elements agreed by Board.

8. The secretariat also held discussions with LGPS actuarial firms in order to get a very broad feel of the potential actual impact at fund and employer level of the various options.

9. The following proposals were put to the Board for agreement.

Ill health

10. That the removal of the third tier of ill health (costed on the assumption that tier 2 would be awarded in these cases) should be recommended.

Death in service

11. That due to the high cost and low perceived benefit a small improvement to the existing lump sum death in service benefit (3 x pay) for all members was not appropriate for recommendation. However a targeted improvement via the introduction of a minimum payment of £75,000 (per member) was.

Early Retirement

12. A number of options on enhanced early retirement factors were considered including limiting the enhancements to various groups of members or sections of the scheme. Following legal opinion on the potential for challenge to a number of options on the grounds of age discrimination two options were put forward to the Board; application of equal enhancement to all members in all sections of the scheme and targeted enhancements to final salary section benefits.

Commutation

13. Given the potential cost of a membership wide increase together with the potential for confusion and administrative overhead of limiting commutation improvements to a particular group of members or section of the scheme this option was not considered to be a priority and therefore no recommendations were made to the Board in this area.

Employee contributions

14. Based on costing information provided, six options for changes to employee contribution rates were considered. The objective for the options was to find one that most closely met the dual ambition of removing tax relief anomalies (where net contributions are lower after an increase in pay because of the effect of pension tax relief) and providing a real reduction for the lowest paid members.

15. The option that most closely met these ambitions was agreed to be;

    - A new 2.75% band at pay of £0 to £12,850. This new band reflects the lack of any pension tax relief for levels of pay below the new personal allowance.
    - An expansion in size but reduction in rate of the current band 2 (5.8%). This would now go from £12,851 to £22,500 and be at a rate of 4.4% benefitting lower paid members.
    - An expansion of the top of current 6.8% band from £45,200 to £53,500 to reflect the increases in the higher rate tax allowance since the bands were introduced in 2014.

16. It was also proposed to the Board that moving the bands out of regulation and into guidance would in future years enable a more effective tracking of changes to pension tax relief as well as providing a more effective and speedier means to meet the target yield.

17. The Board sub group considered these options and obtained agreement by the employee and employer representatives on the Board.

Recommendations of the Board

18. The following package of benefit improvements and employee contribution reductions were submitted to the Secretary of State on 16th November. Since then discussions have taken place with the minister and his team and further legal and equality impact advice has been obtained.

a) Removal of Tier 3 of Ill Health (amendments required to Regulation 35)

b) A minimum lump sum death in service benefit of £75,000 per member (amendments required to Regulation 40)

c) Enhanced early retirement factors for all members who are active on 1st April 2019 in respect of their final salary linked membership only. Following further legal advice obtained by Government an amendment to this recommendation was agreed and submitted on 12th December. The recommendation now is that, within the same cost envelope, enhanced early retirement factors should be applied to <u>all service</u> of all members active on 1st April 2019 (new actuarial guidance required).

d) Removal of contribution bands from regulations replaced by reference to guidance (amendments required to Regulation 9)

e) Introduction of the bands shown below for 2019-20 (new guidance required)

Band	Pensionable Pay from £	Pensionable Pay to £	Contribution rate
1	0	12,850	2.75%
2	12,851	22,500	4.4%
3	22,501	36,500	6.5%
4	36,501	53,500	6.8%
5	53,501	64,600	8.5%
6	64,601	91,500	9.9%
7	91,501	107,700	10.5%
8	107,701	161,500	11.4%
9	161,501		12.5%

Estimated financial impact of the package

19. The revision back to revaluation of pension accrued to the start of the scheme year is estimated to be a **reduction** in the future scheme cost of 0.4% of payroll.

20. This package of recommended benefit improvements is estimated to **increase** the total future service cost of the scheme by 0.5% of payroll.

21. Within that total it is estimated that the reduction in the employee contribution yield as a result of the new bands will be 0.8% of payroll in 2019-20 with a potentially equivalent **increase** in employer contributions.

22. All other things being equal the above package would see net increases in average employer future service rates of 0.9% of payroll.

23. However all other things are not equal and few employers pay the average rate therefore the actual impact for each scheme employer will depend on the outcome of the 2019 valuation process and in particular;

    - The view taken by the fund actuaries of the costs of each element of the package
    - The membership profile of each employer; with those with higher paid full time staff possibly seeing a smaller upward pressure on contributions and conversely those with a very large proportion of staff earning less than £12,000 potentially seeing a much higher upward pressure possibly in excess of 2%.
    - The extent to which the costs are mitigated by other factors such as the falling away of future longevity increases

- The extent to which the costs are amplified by other factors such as reductions to future service discount rates

- The upward or downward pressure of changes to employer deficits on the total employer rate

Next steps on Board cost management

24. It was hoped that agreement could have been reached with MHCLG on these recommendations and a consultation launched before Christmas. For a number of reasons this has not proved possible, however, it is anticipated that such a consultation will be published in late January/early February for regulations to take effect from 1st April.

25. The Board has made representations to MHCLG and HM Treasury that meeting the implementation date of 1st April 2019, will be significantly challenging for administering authorities and have proposed putting back the implementation date if possible. However, indications are that due to the requirements placed on all public service pension schemes the 1st April implementation date will not be changed

26. The Board has strongly suggested to MHCLG that -

    (a) the consultation be as short as is possible and

    (b) a letter of comfort is issued as soon as is legally possible to allow administering authorities and software providers to anticipate the changes to regulations and employers to implement new contribution rates.

27. In the meantime, the Board advise that authorities begin preparations for the above changes including taking a view on advising their employers of the proposed contributions rates. Without pre-empting regulatory changes it may be prudent to put in place the necessary preparations to avoid changing bands on 1st April under current regulations then retrospectively making further changes to bands and rates resulting in contribution overpayments. Doing so could enable employers to take immediate and full advantage of any letter of comfort issued prior to regulations in this area.

28. You may also wish to make employers and members aware of the proposed changes to ill health and early retirement with effect from 1st April so that decisions can be made in light of the proposals.

29. The Board secretariat will contact software suppliers and major payroll providers to assess the changes required to systems to implement these proposals. In particular to determine the most effective way to introduce enhanced early retirement factors with the absolute minimum impact on administrative processes.

30. The secretariat will review the NI database to ensure it can provide the necessary membership information to ensure that minimum death in service lump sums are appropriately limited where multiple active membership records exist across funds.

31. The secretariat will also work with fund actuaries to ensure the proposed changes are able to be appropriately accounted for in the coming valuation.

32. At its last meeting the LGPS Technical Group, consisting of representatives from the regional Pension Officer Groups (POGs), agreed to form a working group early in the New Year to further assess the administrative implications of the proposals and provide information and advice to administering authorities.

Next steps on MHT cost cap

33. The HMT cost cap process will be completed once the outcome of the above proposals and subsequent consultation is known.

34. If the proposals are not accepted by government either prior to or following a consultation then the HMT process will complete without having to take account of any changes to scheme design when determining if the cost floor has been breached.

35. If the proposals are accepted and submitted for legislation, the HMT process will take the changes into account when determining if the cost floor has been breached.

36. In either case if the cost floor is breached changes to benefits will be required under the terms of the Public Service Pension Schemes Act 2013.

Jeff Houston
Secretary to the Local Government Pension Scheme Advisory Board (England and Wales)

If you have any questions please contact the Board Secretariat on any of the following email addresses. Please note you will get an out of office from the team over the Christmas period but your email will be picked up and will be responded to as quickly as possible.

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21st December 2018

ANNEX 2

Local Government Pension Scheme

Statutory guidance on asset pooling

Contents

Foreword

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

'Pool' the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
'Pool member' an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
'Pool governance body' the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
'Pool company' the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
'Pool fund' a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
'Pool vehicle' an investment vehicle (including pool funds) made available to pool members by a regulated pool company
'Pooled asset' an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
'Retained asset' an existing investment retained by a pool member during the transition period
'Local asset' a new investment by a pool member which is not a pooled asset

3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

1. reduced investment costs without affecting gross risk-adjusted returns
2. reduced costs for services such as custody, and for procurement
3. strengthened governance and stewardship and dissemination of good practice
4. greater investment management capacity and capability in the pool companies, including in private markets
5. increased transparency on total investment management costs
6. diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external
- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

Regular review of services and procurement

3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

Regular review of active and passive management

3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority’s specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

Strategic and tactical asset allocation

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

Temporary retention of existing assets

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

Regular review of retained assets

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:

- *Substantially backed by durable physical assets;*

- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.

Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

For the purpose of defining those assets which are classed as being within an asset pool, ‘pooled assets’ are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund’s control.

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

LGPC MEETING
16 January 2019 ITEM D

Regulation Update Scotland 2018

1. Draft Regulations - The Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2018

Draft Regulations went out to a technical consultation on the 18 December 2018, closing on Monday 11 March 2019. These amendments extend the flexibility to take an 'Uncrystallised Funds Pension Lump Sum' (UFPLS) from a member's AVC provider to members of previous schemes.

They also include changes which re-instate the wording requiring employers to use the full unreduced pensionable pay when calculating ill-health benefits after a member reduces their hours due to ill-health.

This change is backdated to the 2014 regulations which came into force on 1 April 2015.

In response to requests from stakeholders, draft changes have been introduced to require that pension contributions are paid automatically for the first 30 days of an absence, to ensure that members do not lose pension benefits and to assist in the administration of the Scheme.

These regulations also correct a number of referencing errors and ensure that the provisions in the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 continue to have effect in the 2018 scheme.

2. Regulations - The Local Government Pension Scheme (Scotland) Pensions Amendment (Increased Pension Entitlement) Regulations 2019

In 2008/2009 GMP-related overpayments across the public service schemes were identified and Scottish Ministers chose to allow the pension in payment to remain unadjusted for affected pensioners in the Police, Firefighter and Local Government Pension schemes.

Scottish Ministers have decided that a similar approach should be taken for GMP-related overpayments that arise from the current GMP reconciliation exercise, which concluded in December 2018.

Pensions currently in payment will remain unadjusted, going forward, for affected pensioners in the devolved schemes for Police, Firefighter and Local Government members.

These regulations provide for a new scheme award known as an Increased Pension Entitlement (IPE) which reflects the GMP-related overpayment and will come into force early in 2019.

Government Actuary's Department (GAD)

3. Section 13 of the Public Service Pensions Act 2013

GAD are currently working on their report based on the 2017 valuations completed by actuaries acting for the 11 pension funds in Scotland. The Section 13 analysis assesses whether the four main aims [compliance, consistency, solvency and long term cost effectiveness] have been achieved. GAD expect to present their report to the Scheme Advisory Board in 2019.

4. 2017 Employer Cost Cap

The Public Service Pensions Act 2013 requires all public service pension schemes to undergo regular valuations, in addition to the regular fund valuations undertaken by LGPS fund actuaries.

The Act requires costs to be managed through a cost control mechanism which requires schemes to set a target cost known as the ‘employer cost cap’. This cap is used to measure changes in the cost of the scheme, as identified by the valuation. If the cost of the scheme increases or decreases by over 2% of the cost cap set in 2015, steps must be taken to return costs to that level.

The cap applies to significant unexpected changes in “member costs” i.e. relating to assumptions about the profile of members, such as life expectancy, promotional pay progression and retirement rates.

In preparation for the 2017 cost cap valuation and in line with Treasury directions, GAD collected data from the pension funds as at 31 March 2017. This data has been used to inform the cost cap valuation.

We know that some schemes have breached the cost-cap’ downwards, based on assumptions including the levelling-off of increased life expectancy reported by the Office of National Statistics (ONS), therefore it is likely that the Scottish LGPS will also be affected.

Unlike other public service pension schemes, for the LGPS in Scotland any changes arising from the valuation will apply from 1st April 2020.

5. Actuarial guidance

HM Treasury released draft amending valuation directions on 6 September 2018. The draft directions make public a proposed change in the SCAPE discount rate from 2.8% to 2.4% (subject to confirmation).

GAD are working through the review of all the actuarial factors for the scheme. The review was triggered by HM Treasury’s change to the SCAPE discount rate used in calculating the factors, announced in the Budget. GAD are also including the updated demographic assumptions.

CETV and pensioner cash equivalent factors have already been issued, and we aim to issue further key sets of factors as soon as they become available. We have also taken this opportunity to, where possible, move the factors to a unisex basis.

6. Statutory valuations

HMT Directions confirmed a shift to quadrennial statutory valuations for LGPS, in line with the unfunded schemes, after the 2020 valuation.

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Regulation Update Northern Ireland 2019

1. Background

1.1 Public Service pension regulations are a devolved matter for the Northern Ireland Assembly. Regulations for the Local Government Pension Scheme (LGPS) in Northern Ireland are made by the Department for Communities.

1.2 The Northern Ireland Assembly made its own version of the Public Service Pensions Act (Northern Ireland) 2014.

2. LGPS Regulations

2.1 The Department for Communities has received the valuation results for the Cost-Cap valuation as at 31 March 2016. These results were finalised on 17 December 2018 when the assumptions underscoring all of the Cost-Cap valuations in Northern Ireland were made by way of Department of Finance Directions.

2.2 The Cost-Cap cost of the Scheme has been calculated at 13.8%. The Cost-Cap set in legislation, based on the valuation undertaken as at 31 March 2013, is 17%. Therefore the cost has fallen by 3.2% and breached the Cost-Cap floor.

2.3 As the floor has been breached members contribution rates have to fall or Scheme benefits have to improve to the extent of bringing the Cost-Cap cost back to 17% (ie by 3.2%). Either way it will result in an additional cost to Employers of 3.2%.

2.4 The main reasons for the fall include a reduction in the assumption used for short-term salary growth, reduction in longevity assumption measured by ONS 2016, and a reduction to the commutation assumption. The Scheme Advisory Board also choose to smooth the assumption for increases in longevity which accounted for 0.5% of the cost reduction.

2.5 On 17th December 2018 the Department for Communities issued a consultation on changes to the scheme in order to rectify the Cost Cap floor breach. The closing date for responses is 15 February 2019.

2.6 The Scheme Advisory Board had considered various options and agreed that the accrual rate should be adjusted. It is proposed that the accrual rate for members will increase from 1/49 (2.04%) to 1/43.5 (2.3%) along with a corresponding increase in the accrual rate for survivors (from 1/160 (0.63%) to

1/142 (0.7%)) so that their benefits are maintained at approximately the same percentage of a member's pension (30.625%).

3. Governance

3.1 A meeting of the NI LGPS Scheme Advisory Board took place on 27 November 2018. The main issue was the agreement on how to increase the Cost-Cap cost by 3.2%. The Board members present agreed that it would recommend an increase in the accrual rate to 1/43.5 and a survivor's pension accrual rate increase to 1/142 as from 1 April 2019.

3.2 The Board also noted the likely effect on the employer's future funding rate of the scheme. NILGOSC offered its assistance to the Board if it wished to consider the affordability of the Scheme.

3.3 Finally the Board agreed to write to the English & Wales Scheme Advisory Board to request that the NI LGPS is added to the investment related Cost Transparency Code.

3.4 GAD has almost completed its Section 13 review of NILGOSC's 2016 actuarial valuation. The draft report indicates that GAD has no cause for concern. The final report will be issued to the Department in January 2019.

4. Other Consultations and Legislation

4.1 Northern Ireland's Department of Finance made its own version of Treasury Directions in December 2018, namely the Public Service Pensions (Valuations and Employer Cost Cap)(Amendment) Directions (Northern Ireland) 2018 ie the Cost-Cap Directions.

4.2 The recently launched consultations by DWP on the Pensions Dashboard and the Pensions Ombudsman do not apply directly to Northern Ireland but it is expected that Northern Ireland will follow suit subject to the necessary Ministerial, Executive and Assembly approvals.

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