
LOCAL GOVERNMENT PENSION SCHEME (2015)

Report by Chief Financial Officer

PENSIONS FUND COMMITTEE

4 December 2013

1 PURPOSE AND SUMMARY

- 1.1 This report provides the Pension Fund Committee with an update on progress made at a National level with regard to the design of the new Local Government Pension Scheme (LGPS) in Scotland, scheduled for implementation from 1 April 2015.**
- 1.2 The report outlines the high level objectives for the review of the LGPS in Scotland, the key changes to the scheme design and notes that there is a change to the governance related roles to be established from 1 April 2015.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:-**
 - (a) Notes the progress that has been made at a National level with the scheme design.**
 - (b) Notes further updates on the scheme design will be provided to Committee as and when further information becomes available.**
 - (c) Notes a further report on the changes to governance will be provided to Committee as and when further information becomes available.**

3 BACKGROUND

- 3.1 The reform of the LGPS, as with all the main public sector pension schemes, follows Lord Hutton of Furness' report of March 2011 and the resulting Public Service Pensions Act 2013.
- 3.2 The Scottish Local Government Pensions Advisory Group (SLOGPAG), a partnership between COSLA, trade unions for Local Government in Scotland and the Scottish Government, have been meeting since October 2012 in order to agree the terms of the new scheme.
- 3.3 The high level objectives for the reform of the LGPS were set as follows: -
- To ensure the sustainability of the scheme, the design of the new scheme should be such that existing members remain in the scheme and non-members are encouraged to join
 - Levels of contribution rates which ensure protection of the lowest paid within the workforce
 - Provide quality benefits to scheme members
- 3.4 The new scheme is also subject to a robust and independent Equality Impact Assessment to ensure it meets all legislative equality requirements in both effect and intent; to include inter-gender and inter-generation equity.
- 3.5 The new LGPS (Scotland) will take effect from 1 April 2015 replacing the existing scheme from that date. As the new scheme commences all existing scheme members and new entrants will become members of the new LGPS (Scotland).

4 UPDATE

- 4.1 COSLA issued a statement on 11 November 2013, copy attached at Appendix 1, advising that broad agreement has been reached with trade unions on the design of the new LGPS in Scotland.
- 4.2 The new LGPS in Scotland will continue to be a Defined Benefit scheme, meaning that pension benefits will continue to be calculated to a set formula. This is a key point for Auto Enrolment in allowing those Scheduled and Active Admitted Bodies who decide to use the transitional arrangements to continue to do so.
- 4.3 Information on the broad agreement being reached between COSLA and the trade unions has been included within the latest issue of SB Update for all Scottish Borders Council employees. Additionally, this information has been passed to all Scheduled and Active Admitted Bodies with a request that this be brought to the attention of scheme members.

This advised employees of the following key changes to the scheme: -

- Move from Final Salary to Career Average Pension Scheme
- Increase in accrual rate from 1/60th to 1/49th
- Retaining existing ill health and death in service benefits
- Introducing a 50/50 option allowing employees to pay 50% of contributions for 50% benefits
- Introduction of an Employers' cost cap mechanism to ensure the future affordability and sustainability of the scheme
- Equality in partner pensions for co-habiting and civil partners as with married couples

4.4 Attached at Appendix 2 is a copy of the Heads of Agreement for the new LGPS as agreed by the Scottish Local Government Pensions Advisory Group (SLOGPAG), this document provides detail of the proposed terms at a high level, with the main features outlined within the Executive Summary.

4.5 Within the Heads of Agreement there is a proposal to amend the method of calculating employee contribution rates, from whole time equivalent earnings to actual earnings. This will see a reduction in the employee contribution percentage, resulting in a lower level of income for the Fund.

4.6 Additionally, there is a change to the definition of Pensionable Pay included within the Heads of Agreement. This will see an increase in the level of income the Fund receives in both employee and employer contributions.

4.7 The points included at 4.4 and 4.5 above will be communicated to all Scheduled and Active Admitted Bodies. However, it will be stressed that this is a very high level view of the terms of the new scheme and that the full impact will not be clear until the formal legislation has been passed.

4.8 Within the Heads of Agreement document there are also details of 4 core governance related roles that must be established from 1 April 2015. The impact of this will need to be considered by this Committee as soon as further details become available.

4.9 Representatives from SLOGPAG and the Scottish Pensions Liaison Group (SPLG) are meeting during November to agree a communication strategy, which will ensure all Pension Funds and Employers deliver a consistent message to current and potential members of the LGPS. The representatives are considering the creation of a designated website which will be used to host all online communications with scheme members. This approach was adopted in England and Wales for the introduction of their new scheme in April 2014. The website for England and Wales included a number of short videos to explain the changes and what they meant for scheme members.

5 IMPLICATIONS

5.1 Financial

There are no direct financial implications of this report. However, the implementation of the change to scheme design may have implications for employee and employer contributions it is too early to quantify this.

5.2 Risk and Mitigations

The implementation of the new LGPS legislation will add further complexity to the calculation of member benefits, with existing scheme members having up to 3 different benefits (pre 2009 service, 2009 to 2015 service and post 2015 service) accruing depending on membership. However, this is mitigated through the implementation of the new Pensions Administration System which will ensure compliance with the new legislation. Once the new scheme has been implemented it will be key to monitor the impact on scheme membership and the impact that the proposed changes have on the level of income the Fund will receive.

5.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report. It should also be recognised that an independent Equality Impact Assessment of the scheme has been carried out.

5.4 Acting Sustainably

There are no significant effects on the economy, community or environment.

5.5 Carbon Management

No effect on carbon emissions are anticipated from the recommendation of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to either the Scheme of Administration or the Scheme of Delegation are required as a result of this report.

6 CONSULTATION

- 6.1 The Head of Corporate Governance, the Head of Shared Services, the Head of Audit and Risk, HR Manager and the Clerk to the Council have been consulted and any comments have been incorporated into the report.

Approved by

Chief Financial Officer

Signature

Author(s)

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Background Papers: N/A

Previous Minute Reference: N/A

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Ian Angus can also give information on other language translations as well as providing additional copies.

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