



Annual Report 2015/16

Scottish Local Government Pension Scheme Advisory Board (SAB) Annual Report 2015/16

Opening Remarks from the Chair

On behalf of the Local Government Pension Scheme Advisory Board, I am delighted to be able to present the first SAB Annual Report. The aim of this Annual Report is to provide a primary source of information about the work of the Board over the last financial year, 2015 – 16 for LGPS members, employers, and other stakeholders. The Board welcomes feedback on the information provided and how this can be developed for future reports.

More information can be found about the Board's work at our website:
<http://lgpsab.scot/>

William McGonigle
Chair of SAB

Introduction

The Scottish Local Government Pension Scheme Advisory Board (SAB) was established under the Public Service Pensions Act 2013 to provide advice to Scottish Government Ministers on the desirability of changes to the design of the scheme and the implication of other policy issues.

The SAB also provides advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the scheme.

The Scheme Advisory Board is responsible for:

- Providing advice on request about the desirability of changes to the design of the scheme; policy issues and changes to scheme regulations
- Discussing and commenting on the potential implications of future valuation outcomes
- Making recommendations on adjustments to the Scheme in the event that costs breach the employer cost cap
- Providing advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the Scheme.

Structure and People

The SAB is a bipartite Board comprising equal representation from employers and employee representatives. The partnership approach is also reflected in our administration arrangements with Joint Chairing on a rotational basis between the two sets of representatives and a Joint Secretariat sourced from existing resources within the Employers and Trade Union organisations.

SAB Members

Outgoing Chair (2015-16) – Cllr Stewart Cree, COSLA

Incoming Chair (2016-17) – William McGonigle, Unite the Union

| | |
|----------------------|---|
| Cllr Stewart Cree | Member (representing scheme employer interests) |
| Cllr Alastair Rankin | Member (representing scheme employer interests) |
| Cllr John Mitchell | Member (representing scheme employer interests) |
| Cllr Jim Goodfellow | Member (representing scheme employer interests) |
| Cllr Ian McAlpine | Member (representing scheme employer interests) |
| Brian Strathie | Member (representing scheme employer interests) |
| Rebecca Wilson | Member (representing scheme employer interests) |
| Dave Watson | Member (representing scheme member interests) |
| Stephen Smellie | Member (representing scheme member interests) |
| William McGonigle | Member (representing scheme member interests) |
| Brian Gallagher | Member (representing scheme member interests) |
| Alex McLuckie | Member (representing scheme member interests) |
| Andy McFarlane | Member (representing scheme member interests) |
| Harry Frew | Member (representing scheme member interests) |

Joint Secretary – Employers’

Outgoing - Jane O'Donnell, COSLA

Incoming - Hayley Wotherspoon, COSLA & Jonathan Sharma, COSLA

Joint Secretary – Trade Unions

Dave Watson, UNISON

There are a number of observers and advisers who support the SAB in the deployment of Board business. These include representatives from, and on behalf of, the Scottish Government, formal COSLA officials, pension scheme managers and representatives from professional associations.

Communications

The SAB have developed a bespoke website to act as a unique source of information and advice to all stakeholders. The site includes the minutes of SAB meetings along with other governance documentation, guidance documents and details of the Board's membership. The content of the website will develop as the work of the Board continues.

Similar information is also published on the local government pages of the SPPA website - <http://www.sppa.gov.uk/>

A short bulletin is also published after each meeting covering the key decisions. This bulletin is circulated to key stakeholders and is available of the SAB website.

The SAB has also issued guidance to employers and funds on a number of issues as detailed on the workplan.

Financial report

The regulations underpinning the 2013 Act allow the SAB to collect a levy to support its work. In the first year of operation, the SAB adopted a straight proportion of the levy raised by our equivalent SAB in England and Wales equating to £40,000. The SAB secretariat and support function is used from existing resources within both employer and trade union organisations to minimise the financial impact of our work on the public purse. During the business year 2015-16, the SAB used these funds to support our work in data collection and transparency and in considering the issues associated with Fiduciary Duty. A regular financial report is considered by the SAB at each meeting and any monies not used are held over for the following financial year.

Valuation and Funding

The Government Actuary's Department presented their draft actuarial valuation of the scheme as at 31 March 2014 and the Deputy First Minister has subsequently approved this. This valuation sets the 'employer cost cap' that will be used to regulate the impact of future valuations on contributions and scheme benefits. The report also looked at changes in assumptions since 2013 that the current scheme was based on. There has been a small increase in cost due to improved life expectancy, but this is largely balanced out by a reduction in the cost of ill health retirement.

The Board has also received presentations from scheme actuaries on current and future funding issues and this is a standing item on the Board agenda.

Highlights of 2015/16

Workplan

The Workplan drives the agenda of the Board and reflects its role in advising both the responsible authority and Scheme Managers. During 2015/16 the responsible authority was the Deputy First Minister, the responsibility now sits with the Cabinet Secretary for Finance and the Constitution. The Deputy First Minister approved the Board's Workplan on 25 February 2016. The current Workplan is set out in Appendix I.

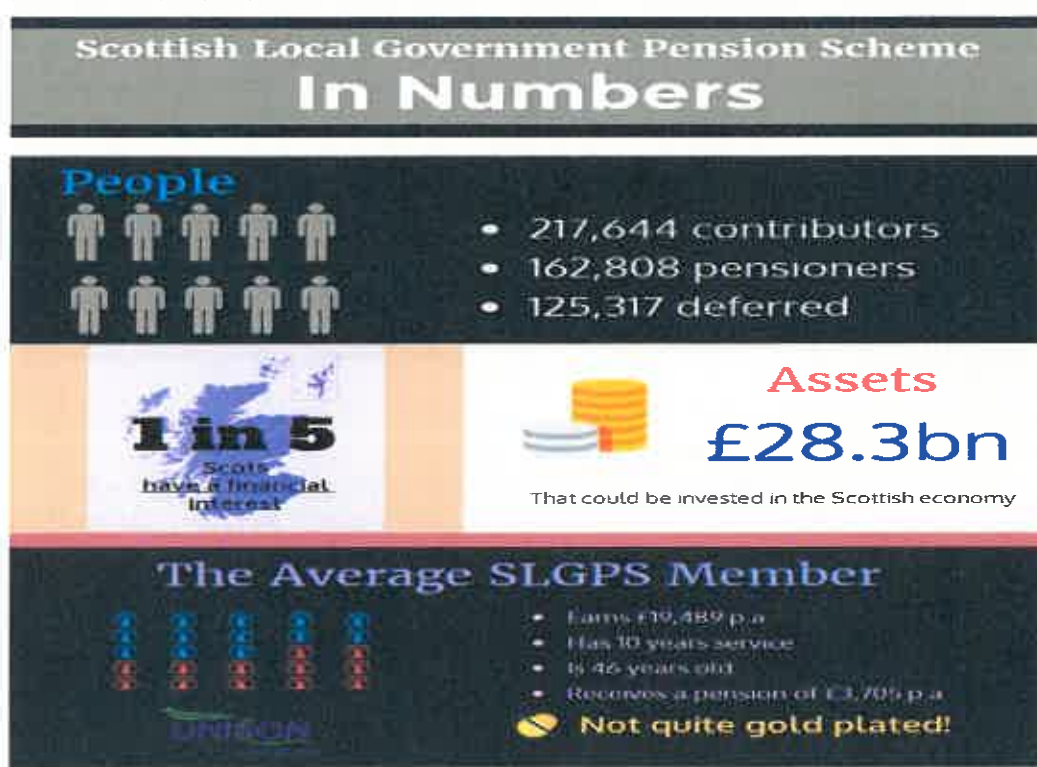
Data Collection Activity

The Board identified a need to improve the data available across the funds and to develop greater consistency in the way data is presented. A scoping exercise has been undertaken and the first report has been presented to the Board. The Board is grateful for the support of staff at Lothian Pension Fund for their assistance with this project.

As a result of this exercise the income and expenditure of each fund is outlined, showing employer and employee contributions as well as benefits payable and the value of transfers into and out of the funds. The administrative and governance costs of the funds are also included.

As noted above, the Board has considered the Government Actuary's Department (GAD) actuarial valuation as at 31 March 2014. This provides membership experience data for the period April 2011 to March 2014.

Table 1 – Experience Data



The Board have also carried out a data collection exercise in relation to membership. The Board collated from councils, who make up 75% of the scheme membership, employee data by spinal column point and gender. A summary table is detailed below.

Membership of the scheme is only one part of the overall picture. The Board also needs to consider who is not in the scheme, not least for the purposes of measuring progress against the 2015 scheme's equality impact assessment. The SLGPS has historically had the lowest take up of any public sector pension scheme in Scotland. This is primarily due to the prevalence of low paid, part-time and women employees in local government – all factors that generally point to a low take up of pension opportunities. While it is probably too soon to assess the full impact of auto-enrolment, initial results indicate that membership of the scheme is increasing, particularly amongst those groups that have been traditionally under-represented. Further work will be undertaken on this in the coming years.

Table 2 – 2016 Membership Levels

| | Actual | % | Comparison to 2013 |
|-----------------------|--------|------|--------------------|
| Total No of Employees | 188656 | 100 | |
| Female | 135673 | 71.9 | ↑ |
| Male | 52983 | 28.1 | ↓ |
| | | | |
| Female Employees | 135673 | 100 | |
| In Scheme | 105143 | 77.5 | ↑ |
| & Under SCP 21* | 22204 | 27.0 | ↑ |
| | | | |
| Male Employees | 52983 | 100 | |
| In Scheme | 43612 | 82.3 | ↑ |
| & Under SCP 21 | 6666 | 12.6 | ↑ |
| | | | |
| Not in Scheme | 9371 | 17.7 | ↓ |
| & Under SCP 21 | 3572 | 6.7 | ↓ |

*SCP – Scale Point

Transparency of Investments

Closely linked to data collection is transparency of investments. With more than £34bn of assets, there is an understandable interest in how contributions are invested. There are a number of public campaigns on pension investment activity, significant media interest and the Scottish Parliament's Local Government and Regeneration Committee looked at the scheme last year as part of its inquiry into infrastructure investment.

The Board has published a breakdown by broad asset class of current investments in each fund and for the scheme in total. This shows how much is

invested in bonds, equities, property and alternative investments. This information is available at Appendix II (additional spreadsheet). The Board recognises that there is a demand for a more detailed breakdown into types of investment, particularly those in controversial areas. There are significant challenges in collecting this data, not least because there are few agreed definitions. The Board will continue to examine this issue and identify what further measures can be taken to improve transparency.

In addition to transparency over where the assets are invested, the Board has also responded to growing interest in transparency of investment fees. The new CIPFA guidance has made some progress in gaining a better understanding of investment fees – resulting in the appearance of significantly increased investment fees in some funds. The Board also received a presentation from Dr Chris Siers on this issue, highlighting the need for common industry standards on reporting transaction costs. Our colleagues in England and Wales are also looking closely at this issue.

Fiduciary Duty

The Board recognises the desire for pension funds to invest in infrastructure and respond to public concern over certain types of investment, including, but not limited to, fossil fuels. These concerns were also reflected in the Scottish Parliament's Local Government and Regeneration Committee report.

One of the considerations pensions funds have to take into account is their fiduciary duty to beneficiaries and scheme employers. This is a complex area of law and therefore the Board has commissioned a detailed legal opinion on this issue. The Board will be giving further consideration to this advice and aims to issue guidance to funds.

The Board has also recommended changes to the investment regulations to give funds greater flexibility over where funds can be invested. Parliament has now approved increases to the investment limits as an interim measure. The Board will return to this issue in the coming year with the aim of recommending long-term changes to the current somewhat prescriptive regulations.

Please note: This guidance has now been issued (July 2016)

Cessation Valuations

The SAB has considered representations from some Community Admission Bodies who are concerned that recent cessation valuations may place their organisations in jeopardy. The Deputy First Minister also asked the Board to give consideration to this issue. The board is sympathetic to these concerns while recognising that it would be unreasonable to expect other employers to meet the cost of these payments.

Funds have not changed the way they have dealt with this issue and have been prepared to be as flexible as possible by spreading the costs over a period of time. The SPPA has collated data from funds on the potential risks

and the initial data report does not indicate any major concerns. The board will therefore consider further guidance to funds on this issue.

Structure Review

Following the data collection exercise, the Board will begin a structural review of the funds in Scotland. In recent years COSLA and UNISON have commissioned separate studies into the benefits of merging the eleven funds or adopting shared services. The UK government has also announced the pooling of fund investments in England and Wales into what they describe as 'British Wealth Funds'. These pools would be of a similar size to a combined fund in Scotland.

The Board is to consider a scoping paper on the review that will set out a methodology and timescale for the review.

Please note: The Board considered a scoping paper on this at their May 2016 meeting. A sub group has now been establish and will meet for the first time in August 2016 to progress this work.

Regulations

The new SLGPS has only been in operation for a year and there have been a small number of issues identified that may require regulation changes or revised guidance. The Board has been giving regular consideration to these matters and will keep the benefit regulations under review. As identified above, changes have been made to the investment regulations.

Future Work

The Board has and will continue to progress the areas set out above. In addition the Board will be undertaking a review of the 50:50 option as agreed when the new scheme was adopted. The Board will also contribute to the review of governance arrangements across all the public sector pension schemes in Scotland later this year.

Appendix I - The SAB Workplan 2015/2016

| No | Title | Description | Output Required | Completion Date |
|----|--|---|---|--|
| 1 | Funding Levy mechanism | To agree a mechanism to allow the Scheme Advisory Board to fund the development work required to carry out its role. | That an agreed levy approach is agreed to support the work of the Board. | 31 st December 2015. |
| 2 | Collection and Consistency of Fund Data | To scope out a body of work which will consider the collection of data across Scottish Local Government Pension funds. | A benchmarking exercise providing information on data collected by individual funds. | 30 th April 2016 |
| 3 | Structure Review | Following from the data collection exercise, to complete a review of the structure of the Scottish LGPS. | A report from the Scheme Advisory Board outlining the results of the review exercise. | Dependant on the data exercise noted above (2). 30 September 2016 |
| 4 | Transparency of Investments | To consider how to improve transparency across the Funds in relation to investment decisions. | Guidance on transparency around investment costs and to ensure that this reflects best practice. | To take place as part of exercise under Item 2 and therefore as above. |
| 5 | Fiduciary Duty | To review the main fiduciary duties as they apply at all levels of the Scottish LGPS and consider appropriate guidance. | To provide guidance if required across the Scheme on fiduciary duty, taking account of recent evidence and opinion, including the recent Law Commission report. | 31 st March 2015 |
| 6 | Funding Issues for the Local Government Pension Scheme | To consider the issue of funding within the Scheme and how this impacts nationally and at fund level. | This item will cover all funding issues for the LGPS in Scotland. | Training session provided by Hymans Robertson in August 2015. |

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| | | | | Standard agenda item. |
| 7 | Cessation Valuation: Guidance and Regulation Review | To consider a range of matters raised as a result of recent activity on cessation valuations | That there are two areas for consideration by SAB and Scottish Government on 1) regulation review and 2) good practice guidance for Funds. | Exercise should take into account SPPA data collection exercise which is ongoing. Urgency around issue would suggest 30 th June 2015 at the latest. |

| No | Title | Description | Output Required | Anticipated Timescale |
|----|---|---|--|-----------------------|
| 8 | 50:50 option review | To scrutinise the impact of the 50:50 option within the Scheme. | To allow for a meaningful consideration of the impact of the 50:50 offer within the Scheme. | June 2016. |
| 9 | Valuation Outcomes and Impact on Cost Cap | A triennial agenda item whereby GAD report will inform the Scheme Advisory Board on the outputs of the most recent valuation exercise and provide advice on any impact on the cost cap. | To allow the Board to consider the information provided by Funds from the recent valuation exercise. | 30 November 2015 |
| 10 | Review of governance arrangements | To allow for the existing model constitution to be reviewed for effectiveness. | To allow for a meaningful review of all governance arrangements within the LGPS. | 31 March 2017. |

Original Workplan Items now Standing Items on Board Meeting Agendas.

| No | Title | Description | Output Required | Anticipated Timescale |
|----|-------------------------|--|---|-----------------------|
| 10 | Communications Strategy | To consider an appropriate strategy on communications for members and on guidance for funds where required | This item will be a standing meeting item and will ensure that the Board are communicating effectively with all stakeholders. | |
| 11 | Review of | A standing item to ensure that | This item will be a standing | |

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|--|-------------|--|---|--|
| | Regulations | regulations reflect legislation and are fit for purpose. | meeting item and will inform/reflect the Board's response to existing regulations or those in draft form. | |
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Appendix II: Net Assets Account as at 31st March 2015

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