

May 2023

BULLETIN

Update on the Scheme Valuation

The SAB received a report from The Government Actuary's Department (GAD) on a review of actuarial factors affecting the LGPS. The highlight was the mortality of members, who now aren't living as long as previous expected. This affects the assessment of whether the "cost collar" of the scheme has been breached, but also the reduction factors for members who retire early, and the value of a pension being transferred into or out of the LGPS.

GAD also reported on the reduction in the "SCAPE" discount rate, which estimates how fast the economy will grow, from "Inflation plus 2.4%" to "Inflation plus 1.7%". Reductions in the SCAPE rate have previously meant that the "cost-collar" of the LGPS might be breached, which means the scheme would be changed to become more generous (funded by increased employer-contributions). However, the new "cost-collar" includes an extra "economic check", which is likely to stop any changes on the grounds that they are not affordable.

SCAPE does not have the same impact on employer contributions in the (funded) LGPS as it does on other (unfunded) public sector pension schemes. This is because the discount rate used in Fund valuations is set by the Fund actuary using more fund-specific information.

National Care Service

The SAB received a reply from the Minister (more overleaf) to its letter requesting consultation on the LGPS dimension of the creation of a National Care Service. The legislative process of the NCS Bill has recently been delayed for a number of months. It is currently not clear what options are being analysed by the consultant, Deloitte, who was appointed to examine the pension implications. The SAB welcomed the reassurance in the letter that it would be consulted, and expressed a wish for an ongoing process of engagement to commence in the near future.

McCloud Remedy regulations

Funds have been undertaking substantial work in relation to the remedy from the McCloud legal case. These regulations are currently expected by the start of October 2023.

Cost Transparency - Training

The SAB has taken up the offer of training for Fund administrators and political representatives on the online Cost Transparency System. The system is now bedded in, and aims to shine a light on costs and returns of investments in a range of different

investment classes and fund sizes. The training will include examples of how different funds have got benefits from using the system in practice, and is expected to run for Scottish Funds in Autumn 2023.

Good Governance

The good practice recommendations in the report on Good Governance from the E&W SAB was noted by the SAB. It agreed to circulate this to Funds and, given the variety of funds in Scotland, to ask for information on whether the recommendations were currently in place. Reinforcing the good governance agenda, the SAB also agreed to include a section in its annual report on attendance of Board Members.

LGPS Structures

The Minister has noted the current review of pooling in England and Wales, and the proposed merger of Lothian and Falkirk Funds under “Project Forth” has asked the SAB to consider pausing its work on structures to understand the outcome of these. In response, the SAB agreed a programme of three training events to upskill SAB board members to be better prepared to understand and respond to these two processes.

Response from Minister

Given the importance of understanding the Ministers thinking on the NCS and LGPS Structures, below are relevant excerpts of the correspondence from the Minister to the SAB.

On the National Care Service

First of all, it may be helpful if I set out the background to the planned set-up of the NCS. On 1 September 2020 the First Minister announced that there would be an Independent Review of Adult Social Care in Scotland as part of the Programme for Government. The principal aim of the review was to recommend improvements to adult social care in Scotland. This agenda extends to the outcomes for the people who use services, their carers and families and the experience of people who work in adult social care.

The Independent Review concluded at the end of January 2021 and the key outcomes for this are better terms for and strengthening of the workforce by embedding fair work and workforce development into Scotland’s legislation. The NCS Bill sets out a framework for the changes the Scottish Government wants to make in response to the review and gives Scottish Ministers powers to work through the detail with people who access support and those who provide it.

We recognise the crucial importance in allowing Care Boards to make staffing decisions based on their own needs and circumstances, and the need of the communities in which they operate. It remains the Scottish Government’s position that new local care boards will work collaboratively and in partnership with the NHS, local authorities, third and independent sectors to improve support locally and nationally. Once the structure and governance of care boards and their localities have been decided, decisions about the employment of local government staff can be made.

We are aware of the legitimate held concerns and questions raised around pensions and for that reason, we have commissioned support for expert pensions advice, which is being provided by Deloitte. The aim of this is to help us understand what options might look like, what some of the risks and opportunities are with each, the data we require to make informed decisions and the next steps required.

Thorough consideration will be given to all options for pension transfers and stakeholders will be consulted on any decisions that will need to be taken. We are actively considering pensions implications and will look to engage with the wider sector, including yourselves, at the right time. Our intention will be to avoid any detriment to staff, including in relation to pensions.

To this end, I welcome your offer of help and would ask that you work with relevant officials to understand the full significance of any possible unwanted outcomes. I have asked my officials to ensure that the views of the SAB are sought and I would be grateful if you would provide any recommendations that result from this collaboration, at the end of the review.

On the Structures Review

On the Structural Review, I would once again wish to offer my thanks to the SAB for the comprehensive work undertaken so far in researching and reviewing the options for the future structure of local government funds in Scotland.

As you are aware, following research commissioned in 2015 which indicated that significant savings could be delivered by the creation of investment pools, the UK Government obliged each LGPS administering authority in England and Wales to join, or help create, six investment pools with other LGPS administering authorities.

It was expected that cost-savings would be achieved through economies of scale and increased bargaining power; investment costs would be reduced along with other costs for all types of investment used in the pool. It was also envisioned that the creation of investment pools would make it easier for LGPS funds to invest in local infrastructure, due to their increased scale.

I understand that the Department for Levelling up, Housing and Communities in England and Wales expect to launch a review of the outcomes of the 'Pooling Agenda', looking at best practice and understanding the experience of the funds there.

As you set out in your letter, I am aware that Lothian Pension Fund (LPF) and Falkirk Council Pension Fund (FCPF) are currently engaged in work to achieve a merger of the function of those two funds. Officials are supporting this work and I am particularly interested to learn of the proposed governance models for any new fund established.

With all this in mind, I invite the SAB to consider whether is preferable that any further work on scheme structure is put on hold, until the outcome of the E&W review of the 'Pooling' agenda becomes clear and the process of the proposed merger and governance model planned LPF and FCPF merger is established.

Further details on our website www.lgpsab.scot.