

FALKIRK COUNCIL

Subject: LGPS 2015 – HEADS OF AGREEMENT
Meeting: PENSIONS COMMITTEE
Date: 12 DECEMBER 2013
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1. INTRODUCTION

- 1.1 The Public Service Pensions Act 2013 requires that public sector schemes, such as the Local Government Pension Scheme (LGPS), are changed from final salary to career average arrangements by April, 2015.
- 1.2 This report updates the Committee on the Heads of Agreement that has been reached between COSLA, Trade Unions and the Scottish Government.

2. BACKGROUND

- 2.1 The aim of the Public Service Pensions Act 2013 is to establish a common framework for public sector pensions and to ensure that the schemes are sustainable in the long term with costs being more evenly spread across employers, public sector workers and taxpayers.
- 2.2 The Act incorporates many of the proposals put forward by Lord Hutton in his public sector pensions review of 2011; introduces various governance obligations; and gives HM Treasury new powers to control scheme costs.
- 2.3 Negotiations regarding the LGPS in Scotland are the responsibility of the Scottish Local Government Pension Advisory Group (SLOGPAG). This group consists of representatives from COSLA, the Scottish Government and Trade Unions. Meetings are chaired by the Scottish Government who must ensure that compliant legislation is in place by April, 2015.
- 2.4 A draft Heads of Agreement was published on 27 September 2013. This is in the process of being ratified by the parties concerned, having recently been approved by Trade Union members.
- 2.5 The new LGPS (Scotland) will come into operation on 1 April 2015 with all scheme members transferring to the new arrangement on that date. Pensioners and deferred pensioners who have retired or left the Scheme before 1 April, 2015 will remain subject to the “old” scheme rules.

3. HEADS OF AGREEMENT – SCHEME DESIGN

- 3.1 In negotiating the Heads of Agreement, the parties had regard to the following high level objectives:
 - the Scheme design should incentivise employees to be members;
 - the Scheme should be affordable to the lowest paid; and
 - the Scheme should provide quality benefits.

3.2 Notwithstanding that a number of the provisions of LGPS (Scotland) 2015 are requirements of the 2013 Act, the key features of the Agreement are as follows:

- Career Average Scheme with revaluation based on Consumer Price Index
- An accrual rate of 1/49th (instead of 1/60th)
- Normal Pension Age to be aligned with State Pension Age, (ranging from age 65 – 68)
- Ability to pay half contributions and earn half benefits – the “50:50” option
- Voluntary retirement from Age 55 (with an early payment penalty)
- Employer Cost Cap
- Non contractual overtime to be pensionable up to standard working week

3.3 Many features of the existing scheme are specifically mentioned in the Heads of Agreement to make clear that they are being retained:

- Tiered employee contribution rate
- Lump sum death in service benefit
- Survivor Pensions for spouses, unmarried partners and civil partners
- Ill health retirement benefits
- Existing Rule of 85 Protections

3.4 A copy of the Heads of Agreement is attached as an Appendix to this report.

4. HEADS OF AGREEMENT – GOVERNANCE

4.1 The Heads of Agreement also makes reference to the Governance requirements of the 2013 Act.

4.2 The 2013 Act identifies 4 key governance roles which must be established from 1 April 2015:

- **“Responsible Authority”** – this will be the Scottish Ministers who will set the policy and make the regulations for the LGPS (Scotland);
- **“Scheme Advisory Board”** – a national body responsible for providing advice to the Responsible Authority, the Scheme Manager and the Pension Board regarding the effective and efficient administration and management of the scheme;
- **“Scheme Manager”** – this will be the bodies who are required to operate LGPS Funds and any Committee to whom the pension decision making function has been delegated; and
- **“Pension Board”** – the bodies responsible for scrutinising the activities of the Scheme Manager to ensure compliance with scheme regulations and the requirements of the Pensions Regulator.

4.3 The Heads of Agreement provide that SLOGPAG will consider the various governance issues arising from the 2013 Act including:

- the role of the four governance bodies identified by the Act;
- the membership and constitution of the Scheme Advisory Board;
- the operation of the cost control mechanism; and
- the requirements of the Pensions Regulator.

- 4.4 SLOGPAG will continue to operate until the Scheme Advisory Board or Shadow Scheme Advisory Board has been established. (i.e. but no later than 1 April 2015)
- 4.5 It is anticipated that the Scheme Advisory Board will be a politically led Employer/Trade Union forum with an equal number of employer and employee representatives.
- 4.6 The Agreement also provides that either SLOGPAG or a Shadow Scheme Advisory Board will establish a process commencing April 2014 to review of the structure of the Scottish LGPS.
- 4.7 The review is being sought primarily by the Trade Unions who see a reduction in the number of Funds as being a path to increased administrative efficiency and improved investment performance. The review mirrors a process that has been taking place recently in England and Wales to determine if there is a case for fewer Funds or some form of pooled or collective investment vehicle. The Committee will recall that the “Pathfinder” initiative, sponsored by the Improvement Service of the Scottish Government in 2011, concluded that, whilst there should be greater collaborative working amongst Funds, there was no conclusive business case for fund mergers either from an administrative or investment perspective.

5. CONCLUSION

- 5.1 Completion of the Heads of Agreement represents a significant milestone on the path to having the new scheme in place for April, 2015. The next milestone will be for the Scottish Public Pensions Agency to produce draft regulations for consultation in early 2014.
- 5.2 It is expected that SPPA will be conducting a consultation in the near future to gauge opinion on how the governance issues arising from the 2013 Act can be best addressed. The consultation will be brought to the attention of Committee once available.
- 5.3 Although not a requirement of the 2013 Act, a commitment has been made in the Heads of Agreement to undertake a comprehensive review of the structure of the LGPS. The main point of debate is likely to be whether 11 LGPS Funds remain an appropriate model for Scotland.

6. RECOMMENDATIONS

- 6.1 The Committee is asked to note these developments in relation to the establishing of LGPS (Scotland) 2015 and is invited to comment as appropriate.

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Date: 28 November 2013

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LIST OF BACKGROUND PAPERS

NIL