

**Scottish Local Government Pension Scheme Advisory Board
Board Meeting**

17th February 2021 (by video-conference)

MINUTES

Present

Jim Goodfellow (Chair), Andy Thompson (Vice Chair), Simon Mountford, Brian Robertson, Simon Watson (Joint Secretary), David Parker, Annette Drylie, Davina Rankin, Brian Strathie, Stephen Smellie, Lynne Robertson

In attendance

Martin Booth (Directors of Finance), Bruce Miller (LGPS Funds), Richard Mcindoe (LGPS Funds), Catherine McFadyen (Hymans), Iain Coltman (SPPA), Jonathan Sharma (COSLA - Joint Secretary)

1. Welcome and Apologies

The Chair welcomed everyone to the meeting and apologies were noted.

2. Conflict of Interest Declarations

None noted.

3. Minute of Last Meeting and Matters Arising

The Minute was AGREED as an accurate record for 10th December. On the 19th Jan Minute the SAB asked for this to be amended to reflect the decision on the structure review procurement interview panel, that this was to be 2 members each from the Employers and Employees sides with a representative from Scotland Excel. With this the Minute was agreed.

It was NOTED that Matters Arising are on the Agenda, with the exception of two updates as follows:

Resource support to the SAB

As an update to item 9 on the Minute, the SAB was advised that the Joint Secretaries have further discussed the work which the English and Welsh SAB is doing on behalf of the SAB. Firstly to assist in preparing the 2019/20 Annual Report which will come to the SAB's meeting in May and secondly to re-create the SAB's website to be available on the English And Welsh platform, with a view to making this more accessible on-line and for the website to have the same look and feel as the English and Welsh one.

Climate change committee

The SAB was advised of an invitation for a Scottish SAB observer to join a Responsible Investment Advisory Group which is advising MHCLG on regulations covering climate change disclosure, as part of the UK Pensions Bill. It was agreed that initially one of the Joint Secretaries would attend the next meeting of this Group.

4. Cost Cap Valuation

SPPA advised that provisional results for the 2017 cost cap valuation were not yet available. Although the Chief Secretary to the Treasury announced on 4 February that deferred choice underpin would be introduced to unfunded schemes as the remedy to address discrimination and cost cap valuations could therefore be completed, the relevant Directions had not yet been issued by HM Treasury to the Government Actuary's Department (GAD). The GAD valuation report will show pre and post McCloud costs and should not prompt an immediate review of contribution rates. HM Treasury has also announced that any changes to employer contribution rates that would normally happen in 2023 will now be delayed until 2024. In addition, cost cap ceiling breaches will be waived given the forthcoming review of the cost cap mechanism. Any floor breach will however be honoured.

GAD then gave a presentation which covered the following points:

- The 2016 and 2020 valuations cost cap process will be undertaken as required by the Treasury directions.
- The McCloud ruling will mean an upward cost pressure in the valuation.
- Treasury will share draft directions with SABs.
- Given the time elapsed it is appropriate to re-consider scheme specific assumptions. What GAD hope to present will be a briefing on directions; indications on what results may look like; and advice on assumptions. The directions will be provided in 'due course', however GAD is hoping this is during February.

The SAB noted GAD's suggestion that it would be useful to have a smaller group to discuss technical details; and also it may be worth having a SAB meeting in April to discuss the findings, should these be available by then.

A number of questions and points arose from the presentation. GAD confirmed that ceiling breaches were being waived as HM Treasury felt it was not appropriate to direct them whilst the cost cap mechanism was under review. Concerns were raised about possible impact on employer liabilities particularly as triennial valuations are in the process of being completed, however the cost cap valuation would not have an immediate impact on employer rates and clarity would be given as soon as possible. GAD confirmed that costs of McCloud would fall as a member cost within one valuation cycle although there was ongoing litigation in this area.

SAB agreed to consider writing to HM Treasury following receipt of provisional results to offer comments on the Directions, and if necessary to challenge the results they produced. Further discussion was had on the additional role of the LGPSAB in England and Wales in managing cost cap process. SPPA confirmed that this option had been available to Scottish SAB however was not taken up in advance of the introduction of the 2015 scheme. If the SAB wishes to explore this option then it could discuss with SPPA although it would be a challenge for it to be introduced legislatively for this valuation round. Further discussion on the merits of the cost cap valuation applying to funded schemes led to the suggestion that the SAB may wish to write to the government actuary before the conclusion of the review of the mechanism.

Next steps

The view from SAB is that, results depending, the scope to challenge these should be explored. There is a risk that if this is left to 2024 then this may result in under-funding.

The SAB to therefore write to Scottish Ministers (via SAB), regarding a similar arrangement to England & Wales SAB for managing the cost cap process.

The SAB to feed comments in to SPPA/ GAD regarding the merits of the Cost Cap for funded schemes.

It was agreed that a provisional date for a special SAB to receive a presentation from GAD on its should be arranged for early April. *Post meeting note – a special meeting of the SAB was subsequently held 14th April.*

5. Structure Review Procurement Process

The SAB noted that dates for the interview panel are being finalised (with a likely interview date in early March) and there was therefore a need to confirm the Employers and Employees side Reps, in order that invites could be sent.

The Reps on the panel were confirmed as Annette Drylie and Davina Rankin (Employees) and Cllr Goodfellow and Cllr Parker (Employers).

6. Transparency Update

The SAB were informed that the joint secretaries had spoken with the English and Welsh SAB regarding the process for formally engaging the SAB on the Byhiras Transparency code system and that a bill for the cost of this is forthcoming. The SAB noted the cost is split by asset size around £8.5k per annum + a one off cost £40k for phase 2 (to be absorbed by the English & Welsh SAB). The detail of phase 2 was still to be provided but would include the Scotland Funds information.

The SAB noted the update and agreed that written information should be provided in future for updates to the SAB.

7. SPPA Update

SPPA provided an update on a number of pension areas. This included its response to the report from the working group on cessations. The response suggests looking to allow more flexibility in the Regulations, effectively spelling these out, not just saying there's flexibility. SPPA stressed that this gives choices and is not encouraging, for instance, employers to leave the LGPS.

A number of comments were raised on Annex A to the paper, regarding technical recommendations and the financial impact for admitted bodies/ funds.

SPPA indicated that it is content take a step back before consulting on the regulations, in order that concerns raised by SAB members can be worked through. SPPA advised that the further work by the SAB should not hold up drafting and consulting on the regulations and would fir the timescale for this.

Actions were agreed as follows:

That advisors would look further at implications of recommended actions and come back to the SAB in May.

Advisors would join a pre-meeting of SAB members who wished to participate and that this would be arranged in the near future.

An update on the UK Pensions Bill was noted and that the SAB is responding to the offer for a Scottish observer to the responsible investment advisory group and that the joint secretaries will cover this initially.

With the actions outlined above the SAAB noted the SPPA update.

8. Scheme Advisory Board Workplan

The current Workplan was noted and agreed. It was noted that work on multi-fund employers is no longer considered an issue for the SAB, given a facility is there in Regulations. It was agreed therefore to move this item to the concluded section.

9. AOB

The SAB noted that a provisional meeting would be arranged for early April, with the date confirmed as 14th April.

Future Meeting Dates for Noting:

Wednesday 14th April 2021 (Special Meeting to discuss Cost Cap)

Wednesday 19th May 2021

Wednesday 22nd September 2021

Wednesday 24th November 2021