



Local Government Newsletter

November 2019

Hello and welcome to the latest edition of our newsletter. This month's topics include the good governance in the LGPS phase two report, an update from the SAB on the McCloud judgment, draft responsible investment guidance issued by the SAB, and TPR's governance and administration survey. I hope you find the content useful and if you would like any further information please get in touch.



Ben

People news

Fiona joins the Bristol retirement team



The team in Bristol is pleased to welcome Fiona Pilcher, who joined Aon as a consultant on 18 November. Fiona is a qualified actuary with two small children, who, before moving to

Bristol six months ago, played bass guitar in her church music group.

Talking points

Good governance in the LGPS – Phase II report published

On 15 November, the Scheme Advisory Board (SAB) published the [phase two report](#) from the good governance project. The report was prepared by the two working groups formed following phase one of the project and contains detailed proposals of the changes that will be required to implement the framework. Aon's Karen McWilliam was part of those working groups.

Some of the key proposals include the requirement for a pension fund-specific conflicts of interest policy, additional knowledge and understanding requirements for key individuals – including s151 officers and pension committee members, the requirement for administering authorities to measure and report their performance against an agreed set of indicators, and the requirement for administering authorities to give proper consideration to the recruitment

and retention of staff to its pension function, in order to deliver an effective service.

At its meeting on 6 November, the SAB agreed that the working group should proceed to develop phase three of the project, which is intended to include the following actions:

- MHCLG to draft changes to guidance;
- SAB to ask the National Frameworks team to begin work on an Independent Governance Review provider framework;
- SAB to establish the 10 to 15 KPIs referenced in the phase two report;
- SAB to consider preparing a list of topics to be included in the governance compliance statement.

Final proposals for phase three will be considered at the next SAB meeting on 3 February 2020. In the meantime, any comments on the phase two recommendations should be sent to Robert.Holloway@local.gov.uk.

Aon is supportive of the recommendations in this report. There is some excellent practice amongst many LGPS administering authorities which will already meet the proposed requirements, but we recognise this is not always the case, sometimes because of barriers such as lack of resource. If the recommendations are brought forward, we hope this will be an opportunity to ensure high governance standards in all administering authorities. We are also supportive of the proposal for overall standards to be reviewed at a national level by the SAB through the new governance compliance statement to provide greater

transparency and consistent understanding of the requirements.

If you would like to discuss anything in relation to the good governance project, please contact your usual Aon consultant.

SAB publishes McCloud judgment update

On 15 November, the SAB published an [update](#) to the McCloud page of their website which outlines the next steps for the LGPS, suggesting that the scheme will be treated separately to other public service schemes, and that the remedy is likely to involve the extension of an underpin to all members in scope. Importantly, this would mean a full history of hours and service breaks from 1 April 2014 would be required for those members, and administering authorities are advised to communicate this to scheme employers.

The update states that a remedy is unlikely to be implemented before the end of the 2020-21 financial year, meaning issues around FRS102 and audit will again need to be considered, and we will ensure that we get information out to the administering authorities and employers we advise in good time. The SAB also anticipates that any underpin may need to be included in annual allowance calculations, both going forward and in relation to previous years.

Our view at Aon is that we do not believe the SAB update affects our proposals for the current actuarial valuations. The remedy is still uncertain, although it is very likely it will be based on some type of extension to the underpin, consistent with the calculations underlying our suggested approach.

Given the potential for significant additional administration work in respect of changes to the scheme due to McCloud, if administering authorities currently have any backlogs or other outstanding work, they should consider putting a plan in place to clear this before they need to face the additional administration work in respect of the McCloud judgment.

SAB issues first part of responsible investment guidance for consultation

On 22 November, the SAB issued a draft version of the first part of guidance on responsible investment, with a [consultation](#) on this running until 11 January 2020. The aim of the guidance is

to help identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and public law, and the scope for integrating ESG policies into investment strategy statements.

As part of this consultation and to assist with drafting part two of the guidance, the SAB wishes to receive details of case studies that evidence the successful adoption of ESG policies, particularly those associated with climate change. Consultees are also invited to submit comments and suggestions for other matters to be included in the second part of the guidance – which will aim to provide a toolkit to investment decision makers to integrate ESG policies into investment strategies. Comments and cases studies should be sent to Robert.Holloway@local.gov.uk by 11 January 2020 and should be relevant to the scope and content of part one of the guidance.

In addition, a Local Authority Responsible Investment Seminar will be held at LGA's offices at 18 Smith Square, London on 15 January – details can be found [here](#).

TPR Public Service Governance and Administration Survey 2019

At the beginning of November, the Pensions Regulator (TPR) issued invitations to LGPS funds to complete its annual governance and administration survey of public sector schemes. The purpose of the survey is to help TPR identify areas where schemes may benefit from additional support and guidance and to build a picture of governance and administration standards.

Of particular note in this year's survey is the section around cyber security and the requirement for funds to provide details of the controls it has in place to protect its data and assets from cyber risk. This is an area in which Aon has already been assisting funds and if this is of interest to you please get in touch.

Responses to the survey were requested by 29 November.

Industry developments

Temporary pension tax measures announced to maintain NHS services

On 22 November, NHS England [announced](#) temporary measures that will mean senior clinicians who find themselves subject to a tax charge due to breaching the annual allowance will

be able to meet this charge using Scheme Pays and will subsequently receive a contractually binding commitment from their NHS employer to pay them a corresponding amount upon retirement. The commitment is for the 2019-20 financial year only and is intended to relieve the tax issues affecting certain NHS staff and enable them to take on additional shifts or sessions without worrying about an additional tax charge to their pension. Letters of authority between Matt Hancock, the Health and Social Care Secretary, and Simon Stevens, Chief Executive of NHS England, have also been [published](#).

Separately, the Scottish government has [announced](#) that from 1 December any NHS Scotland staff who can evidence that they are likely to breach the annual allowance in 2019-20 and incur a tax charge, will be able to withdraw from the pension scheme and elect to receive their employer contributions as part of their basic pay.

SAB responds to consultation on NHS Pension Scheme

On 1 November, Jeff Houston, as secretary of the SAB and a representative of the Public Service Pensions Tax Working Group, submitted a [response](#) to the recent consultation on introducing flexibilities to the NHS Pension Scheme.

The response raised some difficult issues around the proposal to offer flexibilities to just one group within the scheme and the proposal to offer variable accrual rates that can later be changed with contributions backdated, highlighting the administrative difficulties these changes would likely cause.

Alternative flexibilities that would be easier to administer were suggested, such as determining some parts of pay as non-pensionable, the option to remain in the scheme for life cover only, and the ability to take an in-scheme deferred benefit, thereby breaking the final salary link which is often the trigger for annual allowance tax charges.

Fire and rescue workforce and pensions statistics published

On 31 October, the Home Office published [workforce and pensions statistics](#) for fire and rescue services in England for the year 2018-19. Key statistics from a pensions perspective were a 6% increase in expenditure (to £856 million), against a 1% decrease in income (to £257

million), when compared to the previous year. This contributed to the deficit in the scheme for 2018-19 increasing to £599 million – an increase of 9% compared to the previous year and 46% compared to five years previously.

Pension scam warning issued by the FCA and TPR

On 8 November, the Financial Conduct Authority (FCA) and TPR published a joint [press release](#), following analysis which found that the average amount lost to pension scams in 2018 was £82,000, which on average would take savers 22 years to build up. The analysis also found that 63% of people would trust someone offering pensions advice out of the blue – a common tactic used by scammers.

The press release also announced the re-launch of [ScamSmart](#), which includes a quiz and four steps savers should take to protect themselves from pension scams.

ACA survey finds support for changes to pension tax regime

On 4 November, the Association of Consulting Actuaries released the [third report](#) from their 2019 *Pension trends survey*, which found that a large majority of employers would like to see changes to the pension tax regime. The survey found that 75% of employers said the current structure is too complicated and needs simplification, 67% would like more help for lower earners, even if this meant reduced tax relief for higher earners, and 69% think the tapered annual allowance should be scrapped, even if this meant a lower general allowance.

The ACA suggests that any changes should be well considered by the incoming Chancellor, ideally with some cross-party agreement, and should have input from experienced practitioners on its structure.

Party manifestos published ahead of general election

The Conservative Party, the Labour Party, the Liberal Democrats and the Green Party have all published their manifestos ahead of the general election on 12 December. The [Conservative manifesto](#) does not include a specific section on pensions but, amongst several references to pensions, it confirms on page 35 that measures set out in the Pension Schemes Bill will be

progressed. The [Labour manifesto](#) includes a section on pensions on pages 75 and 76, which includes a proposal to abandon plans to raise the State Pension Age (SPA), leaving it at 66 – potentially impacting public sector schemes, as well as a commitment to compensate women born in the 1950s affected by increases to the SPA. It also states that recent pension changes including tax and auto-enrolment would be reviewed. The [Liberal Democrat manifesto](#) contains a section on 'Support for Pensioners' on pages 65 and 66, which also includes a pledge to compensate women born in the 1950s, together with the retention of the 'triple lock' on the basic State Pension. The [Green Party manifesto](#) contains proposals to limit pensions tax relief to 20%, reduce the tax-free element of pension payments to £40,000, and require councils (and other public bodies) to divest from fossil fuel-related investments.

What we've been talking to our clients about

With pensions taxation appearing regularly in the mainstream news over recent months, we continue to assist administering authorities with high earner sessions around the annual allowance and lifetime allowance, with the aim of raising understanding and awareness among members and relieving some of the demands on administration teams. If this is something your authority would be interested in, please let us know.

Work on the 2019 valuations is also continuing, including issuing employer contribution rates, attending employer meetings and Committee meetings, and revising Funding Strategy Statements.

In April 2018 TPR published their '[Cyber security principles for pension schemes](#)'. On the back of this guidance TPR have asked public service pension schemes for information relating to their cyber security as part of the annual survey in 2018 and again in 2019. In recent weeks, using the expertise of the cyber specialists within Aon, we have been working with several administering authorities on how they can best put in place the controls TPR is suggesting in a public-sector pensions environment. We've also run several 'war games' sessions with administering authorities, which is a workshop with senior

officers and/or pension committee members where they must show how they would respond to various stages of cyber-attacks on their fund. This is a fun way to work through the potential risks that you may have. If you'd like to know more about how our experts can help with your cyber security or cyber resilience please get in touch with a member of the team.

Recent events

Pension Managers' Conference

Craig Payne, Becky Durran, Sam Ogborne, Jonathan Teasdale and myself all attended this year's conference on 19/20 November in Torquay and really enjoyed catching up with so many of you. Sessions included an update from the LGA's Jeff Houston on the draft regulations and consultations that are currently on hold due to the general election, a session from the Pensions Ombudsman, an update on recent case law, and a summary from TPR of the recent deep dive into several LGPS funds. The final session of the conference was an entertaining valuation update from Aon's Jonathan and Sam.

There were also several workshops giving delegates the opportunity to discuss pensions taxation, the good governance project, the national LGPS frameworks, the importance of good data, the use of technology, and best practice in the LGPS.

If you would like to discuss any of the topics covered at the conference please contact any of the Aon attendees, or your usual consultant.

PLSA Local Authority Update 2019

Chris Darby and Alison Murray attended this event in London on 12 November where Alison joined LGA's Lorraine Bennett and NILGOSC's David Murphy in a presenting a session on the ramifications of the McCloud case. Other sessions covered climate change, the good governance project, the pensions dashboard and data sharing between administering authorities and employers.

CIPFA Annual Pensions Conference

On 13 November at the Annual Pensions Conference at the London Stock Exchange, Mary Lambe outlined the work Aon is doing with CIPFA to update its knowledge and skills guidance detailing areas of revision and expected consultation by CIPFA in Spring 2020. Other

sessions covered LGPS developments and the work of the SAB, investment cost transparency, sustainable investment, global economic trends, and a panel discussion on good governance.

Upcoming events

Aon Pension Conferences 2020

[Registration](#) is now open for the 2020 Aon Pension Conferences held in various locations around the UK. These are designed for trustees of pension schemes and pensions, HR and finance professionals who make decisions about the pension scheme.

Attendance is free and offers delegates the opportunity to hear experts' views and ideas on how to manage defined benefit and defined contribution pension schemes, the conferences also provide a platform to learn from and network with peers.

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