Public Document Pack

Shropshire Council

Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: Thursday, 13 September 2018

Committee:
Pensions Committee

Date: **Friday, 21 September 2018**
Time: **10.00 am**
Venue: **Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND**

You are requested to attend the above meeting.
The Agenda is attached.

Claire Porter
Head of Legal and Democratic Services (Monitoring Officer)

Members of the Committee:
Thomas Biggins
Chris Mellings
Brian Williams
Michael Wood

Co-opted Members (Voting):
Malcolm Smith
David Wright

Co-opted Members (Non-Voting):
Jean Smith (Pensioner Representative)
Vacancy (Employee Representative)
Vacancy (Employee Representative)

Substitute Members of the Committee:
Roy Aldcroft (SC)
Roger Evans (SC)
Simon Harris (SC)
Alexander Phillips (SC)
Lee Carter (T&W)
Adrian Lawrence (T&W)
Vacancy (Pensioner Rep)
Vacancy (Employee Rep)

Your Committee Officer is:

Tim Ward Committee Officer
Tel: 01743 257713
Email: tim.ward@shropshire.gov.uk

AGENDA

1 Apologies and Substitutions

To receive apologies for absence and notification of any substitutions

2 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate

3 Minutes of the Previous Meeting

The minutes of the meeting held on 27 July 2018 are to follow marked 3

4 Public Questions

To receive any questions from members of the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 10.00am on 20 September 2018

5 LGPS Central - Global Equity and Alternatives Update

To receive a presentation from Colin Pratt

6 LGPS Central - Fixed Income Update

To receive a presentation from Gordon Ross

7 Corporate Governance Report (Pages 1 - 2)

The report of the Investment Officer is attached marked 7.

Please note: - The appendices to the report will be published as a supplementary pack and will only be sent electronically. Hard copy will be available in the Members Library with the other papers for the meeting

8 Pensions Administration Monitoring (Pages 3 - 34)

The report of the Pensions Administration Manager is attached marked 8

9 Exclusion of Press and Public

To consider a resolution under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to the following agenda items shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them

10 Exempt Minutes of the previous meeting

The exempt minutes of the meeting held on 27 July 2018 are to follow marked 10

11 Equity Protection Update

To receive a presentation from Louis Paul Hill and Kenneth Ettles (AON)

12 Modelling of Equity Falls on the Portfolio

To receive a presentation from Louis Paul Hill and Kenneth Ettles (AON)

13 Update on GAM

To receive a presentation from Louis Paul Hill (AON)

14 Investment Monitoring - Quarter to 30 June 2018 (Pages 35 - 82)

The exempt report of the Head of Treasury and Pensions is attached marked 14

15 New Employers (Pages 83 - 86)

The exempt report of the Pensions Administration Manager is attached marked 15

16 Record of Breaches (Pages 87 - 92)

The exempt report of the Pensions Administration Manager is attached marked 16

Committee and Date	Item
Pensions Committee 21 September 2018 10.00am	Public

CORPORATE GOVERNANCE MONITORING

Responsible Officer Ed Roberts
e-mail: ed.roberts@shropshire.gov.uk Tel: (01743) 252078

1. Summary

1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1st April 2018 to 30th June 2018.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report, Manager Voting Reports at Appendix A and BMO Global Asset Management Responsible Engagement Overlay Activity Report at Appendix B.

REPORT

3. Risk Assessment and Opportunies Appraisal

3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.3 The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.

3.4 There are no direct Equalities or Community consequences.

4. Financial Implications

4.1 There are no direct financial implications arising from this report.

5. Background

5.1 The Shropshire County Pension Fund has been actively voting for over fifteen years at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests. Voting is carried out by individual Fund Managers on all equity portfolios.

5.2 The Fund is also addressing its social responsibility through a strategy of responsible engagement with companies. BMO Global Asset Management provide this responsible engagement overlay on the Fund's UK equities portfolio.

6. Manager Voting Activity

6.1 Details of managers voting activity during the quarter relating to equity portfolios are attached (Appendix A).

7. Responsible Engagement Activity

7.1 During the last quarter BMO Global Asset Management have continued to actively engage with companies on the Fund's behalf. An update on the engagement activities for the quarter is attached at Appendix B in the REO Activity report.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Corporate Governance Monitoring report, Pensions Committee 27 July 2018

Cabinet Member

N/A

Local Member

N/A

Appendices

The appendices to the report will be published as a supplementary pack and will only be sent electronically. Hard copy will be available in the Members Library with the other papers for the meeting

A. Manager Voting Activity Reports.

B. BMO Global Asset Management Responsible Engagement Overlay Reports.

Committee and date	Item
Pensions Committee 21 September 2018 10.00am	Public

PENSIONS ADMINISTRATION MONITORING REPORT

Responsible Officer Debbie Sharp
Email: debbie.sharp@shropshire.gov.uk Tel: 01743 252192

1. Summary

1.1 The report provides Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report and;

2.2 To approve the addition of four further IRMP's to the Fund's approved list.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 **Risk Management**
Performance is considered and monitored to ensure regulatory timescales and key performance indicators are adhered to. Administration risks are identified and managed and are reported to committee on an annual basis.

3.2 **Human Rights Act Appraisal**
The recommendations contained in this report are compatible with the Human Rights Act 1998.

3.3 **Environmental Appraisal**
There is no direct environmental, equalities or climate change consequence of this report.

3.4 **Financial Implications**
Managing team performance and working with other Administering Authorities ensures costs to scheme employers for Scheme Administration are reduced. Reconciling the Funds Guaranteed Minimum Pension Liabilities with HMRC will have a direct cost for the

Fund but if this is not undertaken the Fund risks taking on financial liabilities it didn't need to and having its data called into question by the Fund Actuary. LGPS having to fully index GMP's will increase costs for the Fund going forward. Further compliance with TPR code has highlighted areas where further costs could be incurred.

4. Performance and Team Update

4.1 The team's output and performance level to the end of July 2018 is attached at **Appendix A**. The chart shows that tasks that became due and procedures outstanding both have continued to reduce over the past quarter. This was mainly due to targeting workload clearance and filling vacancies.

5. Help Desk Statistics

5.1 The following chart shows the number of queries received through the helpline number.

	May 2018	June 2018	July 2018
Telephone calls received	770	625	704
Queries dealt with by helpdesk at first point of contact %*	87.40%	89.28%	86.93%
Users visiting the Website	7240	1859	2529
Member drop ins	72	58	60

* Where queries have not been dealt with by helpdesk, this will usually mean that the calls have been picked up by the rest of the team.

5.2 The average number of calls taken by the helpdesk per day is 28 for the quarter to 30 July 2018. The Helpdesk also responds to a number of emails on a daily basis the following table shows these numbers:

	May 2018	June 2018	July 2018
Emails Received	484	339	470
% of emails responded to within 3 working days	100%	100%	100%
Average number per day	21.04	16.14	21.36

6 Communications and Governance

6.1 The Fund monitors member take up of its online area Member Self Service (MSS), known by members as ‘My Pension Online’. The Annual Benefit Statements for both active and deferred members are now only available to view on ‘My Pension Online’ unless a member has requested a paper copy. As at August 2018 a total of 38.4% active members and 30.9% of deferred members were registered to view their records on ‘My Pension Online’.

6.2 As previously reported a project is currently underway to update the system used to provide ‘My Pension Online’. The upgrade will provide; an improved system for pensions staff updating content, better responsiveness for members logging on using a phone or tablet and will modernise the design of the current system. Both the technical and implementation studies have been completed by officers ready for the install of the upgraded system. Work has been required from the Council IT team to ensure the IT infrastructure for the install is fit for purpose. The project go live data has been set for the beginning of November 2018. Member communication will be undertaken to ensure all members are provided with information on how to use the upgraded system.

6.3 **Pensions Board vacancy**
Interviews have been scheduled for 19 September 2018 to interview candidates to fill the current member representative vacancy on the Pensions Board.

6.4 **Annual Benefit Statements 2018**
The Fund has issued Annual Benefit Statements to all active members as at 31 March 2013 by the statutory deadline of the 31 August. Annual Benefit Statements are only available to view on the Funds website via a secure area called ‘My Pension Online’ unless a member has requested a paper copy. This year 234 members received their statement in paper format posted to their home addresses.

7. Request for approval of New Independent Registered Medical Practioner (IRMP)

Regulation 36 (3) of the LGPS regulations 2013 (3) states that employers must obtain the Administering Authority's approval to its choice of IRMP. The Fund for many years has had an approved list of IRMP’s who meet the criteria set out in the regulations that employers can use for ill health retirement opinions. A recent review of the list has shown that three IRMP’s currently on the Fund’s approved list have requested to be removed these are; Dr Hobson, Dr Archer and Dr Nightingale.

7.1 Members are asked to approve the addition of four further IRMP's to the Fund's approved list. These are; Dr Sharp, Dr Mcilroy, Dr Ezan and Dr Cathcart. All doctors meet the required qualifications in occupational health medicine, specifically that they are registered with the General Medical Council and-

(a) holds a diploma in occupational health medicine (D Occ Med) or an equivalent qualification issued by a competent authority in an EEA state; and for the purposes of this definition, "competent authority" has the meaning given by section 55(1) of the Medical Act 1983 (74) ; or

(b) is an Associate, a Member or a Fellow of the Faculty of Occupational Medicine or an equivalent institution of an EEA state;

7.2 Both Shropshire Council and Telford and Wrekin Council Occupational Health department colleagues have been consulted throughout this process as they administer the majority of the ill health cases for employers in the Fund.

8. The Pension Regulators 2017 survey results

The Pensions Regulator has oversight of the governance and administration of public service pension schemes such as the LGPS. The Code of Practice 14 sets out the standards of conduct and practice expected from public service pension schemes. In certain circumstances the TPR can open cases based on the risks in schemes and in response to breach of law and whistleblowing reports. Where standards are not being met and issues are not being resolved enforcement action, including the use of improvement notices and civil penalties are used.

8.1 In autumn 2017 TPR surveyed public service pension schemes to assess how they were being run. 207 public service pension schemes were surveyed including firefighter and police pension schemes. The 2017 survey built on previous surveys issued in autumn 2016 and summer 2015, all of which were responded to by the Fund.

8.2 A summary document of the TPR's findings is attached at **Appendix B**. As in previous years the survey results shown by the TPR identify the top risks for public sector pension schemes are in record-keeping and internal controls. It is also commented that improvements have stalled in some local government schemes and some LGPS Funds may be targeted for casework activities in the following 12 months.

8.3 For many years the Fund has recognised that good record keeping and robust internal controls are key parts to the successful running of a scheme. A TPR compliance review and a data quality exercise have already been completed, following which, a data improvement plan drawn up and reported to members.

8.4 A Reporting Breaches policy has been in place since November 2015 and the Fund records all potential breaches of the law to reduce risk and to provide an early warning if an employer is unable to adhere to their responsibilities which can then lead to the Fund not able to meet its legal obligations. If a breach (or multiple breaches) are deemed as 'materially significant' it can be reported to the TPR. A breach will not normally be materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances. In such a situation, the Fund records all breaches to consider the other aspects of the breach, such as the effect it has had, and to be aware that persistent isolated breaches could be indicative of wider issues. Early engagement with employers is used so a plan can be put in place to address any issues early on. Training and guidance is a key part in breach resolution therefore the Fund offers training to those employers who persistently appear on the breaches log.

8.5 An annual employers meeting is also held and all employers are invited to attend. Members may wish to attend the next employers meeting being held on 11th October 2018 in the Council Chamber at the shirehall.

10. Pensioner Payroll Implementation

10.1 The scope of this project has been agreed between Shropshire Council and the Software provider. Both the PID and Payroll survey documents have been signed off.

10.2 The project has been delayed by 1 month and is now due to go live in October**.** This is due to issues around the interfacing into the Council's new finance system. Testing has not been able to be signed off in time for go live of September. As the Council's current payroll system is still in use this delay does not have any financial or other implications for the Fund.

11 Equitable Life

11.1 On 15 June 2018, Equitable Life announced that they have entered into an agreement to transfer the Society and all its policies to Reliance Life. As a result, they hope to be able to increase the current 35% capital distribution on with-profits policies to between 60% and 70%. However, for this to take place eligible policyholders will be asked to vote (expected to take place mid-2019) in favour of removing policy guarantees as well as on the arrangements to transfer to Reliance Life.

11.2 Equitable Life's proposal (which is to be reviewed by an independent expert whose report will be made available to policyholders before voting) is as follows, to:

- increase the current 35% capital distribution to a level expected to be between 60% and 70%
- close the with-profits fund, which means the guaranteed investment return would end
- convert with-profits policies to unit-linked transfer all policies to Reliance Life

11.3 Following the vote, the proposal will be put before a High Court judge for approval. There is currently no action for policyholders to take. Equitable Life will provide more information in October 2019. The full background to this change can be found on Equitable Life's website.

12 Scheme Valuations and Cost Management Process for Public Sector Schemes

12.1 Rather later than was originally expected, Treasury has issued draft amendments to Directions relating to the scheme valuations and cost management process for public service schemes (**Appendix C**).

12.2 GAD has also issued a Technical Bulletin (**Appendix C**) and provided a statement to Parliament.

In summary

- Member benefits will have to rise and/or member contributions reduce where the cost cap floor has been breached - The LGPS has a dual cost cap process which differs from the unfunded schemes.
- Employer contributions to the unfunded schemes will rise (largely due to a reduction in the Scape discount rate) - Therefore, the headlines regarding NHS, teachers and uniformed services will not necessarily apply to the LGPS.
- The LGPS has a dual cost cap process which differs from the unfunded schemes. There is likely to be tension between the LGPS SAB cost management process in England and Wales and the HMT process.
- Scheme valuations for the LGPS will move to every 4 years – The Treasury's aim is to have a single timetable for cost cap purposes across all public service schemes, so the LGPS cost cap process could be moved to be every 4 years to bring it into line with the unfunded schemes. However this is a separate exercise from the funding valuations which each fund conducts with its own actuary, and there is no strong reason why they could not take place in different cycles.
- The cost management process itself will be reviewed to ensure the original objectives are met

12.3 **Treasury Cost Management Process -** The cost cap floor has been breached for some (unspecified) schemes, requiring an increase to benefits and/or reduction in member contribution rates for the affected schemes. In hindsight this is perhaps not a surprise given that the baseline cost against which the 2016 results are being measured was higher than that on which the new schemes were originally costed, noting the baseline valuation allowed for:

- higher expected longevity improvements at that time (which may now potentially prove to be the highpoint in terms of future improvements)
- use of commutation assumptions which, for the LGPS at least, appeared to underestimate the savings from members exchanging pension for cash at retirement and has been increased from 15% to 17.5% for the 2016 valuation
- higher expected salary growth compared to that experienced (and now expected over the next few years)

12.4 **Implications for the LGPS -** Whilst the documents do not specify the schemes for which the floor has breached, there is a strong possibility this causes difficulties for the LGPS in England and Wales since the cost cap mechanism of the Local Government Pension Scheme Advisory Board appears more likely to suggest upwards cost pressure because:

- it allows for take-up of the 50:50 scheme which has been much less than originally assumed (although the assumption for future take-up is broadly unchanged)
- it uses the original baseline cost of 19.5% of pay (split 13% employer and 6.5% member) rather than a re-drawn (higher) starting point
- the baseline cost allowed for commutation at higher rates which reflect LGPS experience (so less likelihood of an emerging reduction in cost)

12.4.1 Other factors leading to upwards cost pressures in the SAB process (i.e. the effect of the public service transfer club and bringing forward of revaluation by a year for consistency with the other public service schemes) are not being shared with members so the upwards cost pressure from the SAB process is lower than it might otherwise have been. Nevertheless, the two processes may lead to opposing results for the LGPS in England.

12.4.2 The documents appear to suggest that the gentlemen’s agreement, whereby the SAB process would run through before the HMT process with any recommendations suggested by SAB being taken into account in the HMT process, has been honoured. It is not yet clear how SAB will be able to square the circle of recommending changes to the LGPS which will mean the HMT process doesn’t require changes if the former suggests reducing member benefits or increasing contributions but the latter suggests the opposite.

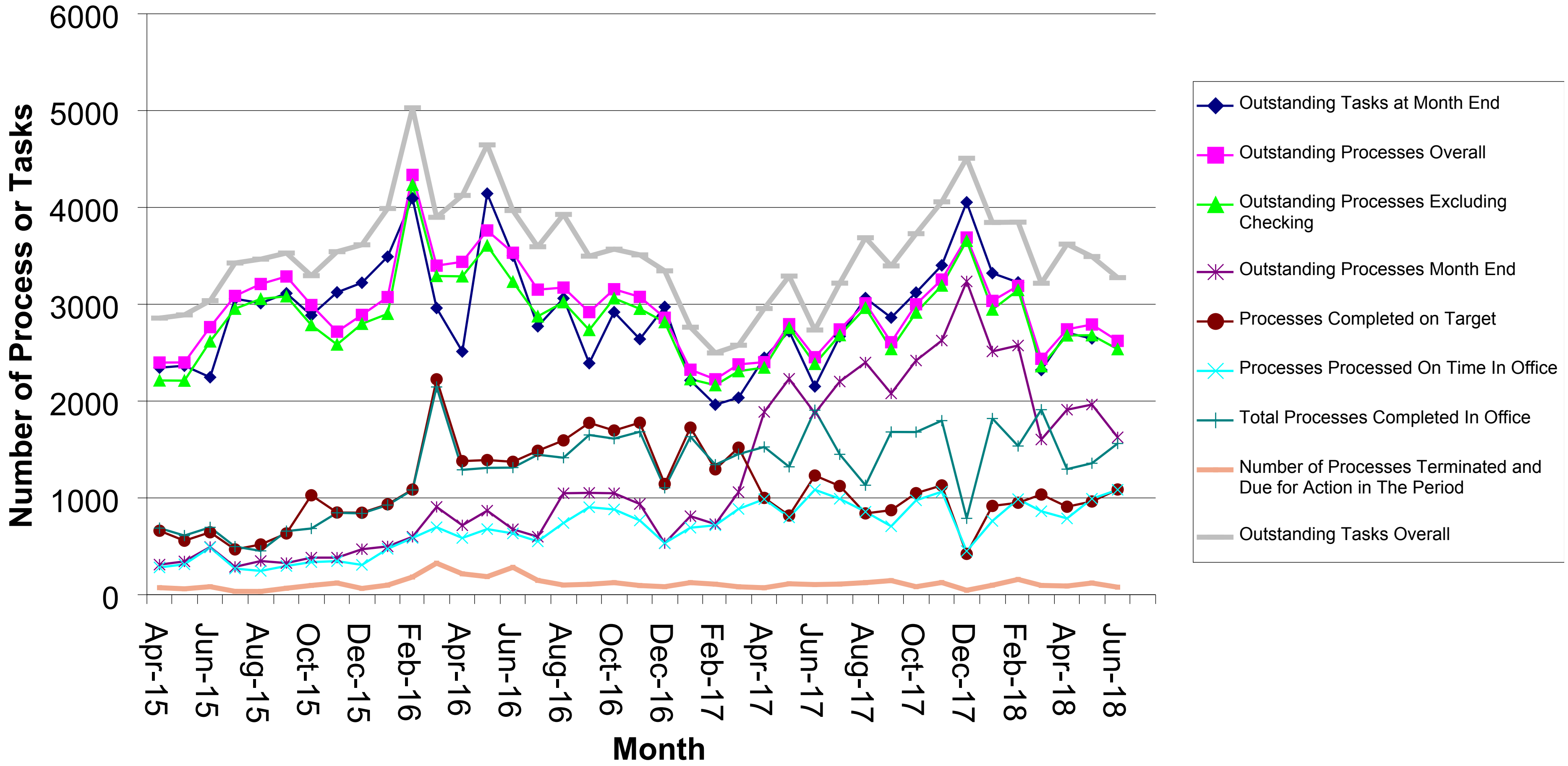
12.5 **Change to quadrennial scheme valuations -** The amendments and technical annex refer to a move to quadrennial scheme valuations for the LGPS so the next LGPS scheme valuations in England, Wales would be as at 31 March 2020 (rather than 31 March 2019). This will mean that all public sector scheme valuations will then be carried out at the same date. It is important to note that these amendments relate to the scheme valuations being undertaken by the GAD for cost management purposes and not to local valuations undertaken by the fund actuaries.

12.6 **Scape Rate -** Finally, the documents highlight a further reduction to the Scape discount rate adopted for the purpose of cost management and setting employer contributions to the unfunded schemes from 1 April 2019 to 2.4% above CPI. This is quite a material reduction to the current rate of CPI plus 2.8%. This will lead to increased employer contribution rates for the unfunded pension arrangements and, presumably to increased transfer values and scheme pay factors for lifetime and annual allowance exercises. Given GAD is currently reviewing the factors in use for the LGPS based on the 2016 LGPS scheme valuation, it is not clear if the change in the Scape rate will also be taken into account at the same time. It would make sense to do so given it is understood that there is likely to be a delay period between the factors being reviewed and their implementation particularly given the complaints from members about the way in which changes to the late retirement factors were implemented.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee Meeting 27 July 2018 Pensions Administration Report
Cabinet Member (Portfolio Holder) NA
Local Member NA
Appendices Appendix A – Performance Chart Appendix B – TPR survey summary

Appendix A

Process and Task Statistics



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Public service governance and administration survey

Summary of results and commentary

May 2018

The Pensions Regulator

Background

We regulate the governance and administration of public service pension schemes, which provide pensions for over 16.7 million civil servants, members of the judiciary, local government, teachers, health service workers, members of fire and rescue services, members of police forces and members of the armed forces.

Our Code of Practice no. 14, available at **www.tpr.gov.uk/code14**, sets out the standards of conduct and practice we expect from public service pension schemes.

We open cases based on the risks we see in schemes and in response to breach of law and whistleblowing reports. Where standards are not being met and issues are not being resolved we consider enforcement action, including the use of improvement notices and civil penalties.

To help us focus our efforts, we surveyed public service pension schemes in autumn 2017 to assess how they were being run. This built on previous surveys in autumn 2016 and summer 2015. In this latest survey we have further examined certain risks and areas of underperformance that schemes identified in previous years.

As in previous years, the survey was an online self-completion questionnaire which was sent for the attention of each scheme contact. We received responses from 191 of the 207 public service pension schemes, covering 98% of memberships. This allows us to draw robust conclusions from the results. This policy summary also draws from the engagement we have undertaken with schemes over the past year through casework, board meetings, training sessions, conferences and speaking events.

This report sets out how we have interpreted the findings, our expectations of those involved in running the schemes and what we will be doing over the next year to address these issues. It accompanies the full research report which shows the responses to all survey questions.

Summary

The survey supports our existing assessment that the top risks in this landscape are around scheme governance, record-keeping and internal controls, but identifies significant improvements in these areas. Many more schemes are now meeting the basic governance standards, allowing us to focus on building further improvements.

Overall, we were pleased by the significant improvements in performance across most of the areas addressed in the survey, in particular the much improved governance reported by the Police and Fire schemes. While they continue to lag behind their peers, we anticipate that these schemes will continue to show improvements across all governance areas in 2018.

In the third year of having a statutory deadline, 60% of schemes reported that all members had received their annual benefit statement on time. This is a commendable improvement on the previous year when less than half (43%) of schemes met the deadline.

We are pleased to see increased engagement from scheme managers and pension boards in running the schemes. However, the survey shows that over two-fifths (43%) of schemes hold fewer than four meetings a year. In our view, this provides inadequate opportunity for pension boards to effectively carry out their role and raises concerns about the quality of governance.

We also see signs that process improvements have stalled in some Local Government schemes. This group was also the one that was least likely to respond to the survey and we are concerned about the risks of disengagement. Because of the specific challenges faced by Local Government schemes, we expect to focus casework activities on this group in the coming year.

Scheme governance

The results of this year's survey have shown encouraging improvements in scheme governance. The Police and Fire schemes deserve a particular mention for the improvements they have made over the last year, from a low base. It is also noticeable that the group of centrally administered schemes has also shown improvements in governance, which is pleasing given that they are generally large and complex arrangements.

All six of the key processes monitored by us have improved since 2015, and three have shown improvements since 2016. Of these six processes, the most notable increase has been in schemes that have a documented policy to manage board members' conflicts of interest. This was in place in 92% of schemes, an increase of 11 percentage points since 2016.

A similar improvement was seen in schemes with documented procedures for assessing and managing risks. These are now present in 83% of schemes, an increase of 11 percentage points since 2016.

These items are basic features of scheme governance and we expect this year's improvements to continue. By the end of the year, all schemes should have a conflicts of interest policy and procedures for assessing and managing risks in place.

One of our main messages to public service schemes over the past year has been about the importance of good quality scheme data. It is therefore disappointing to see an apparent fall in the number of schemes with processes to monitor records for accuracy and completeness. This year, 15% of schemes stated that they did not have these in place, a decline of four percentage points since 2016. This suggests that schemes may have reviewed the processes they believed they had in place and have found them either absent or inadequate.

Only 58% of schemes have all six key processes in place. This leaves over 4.8 million members (29%) in a scheme that does not have a complete set of basic governance features in place.

Good governance is essential to pension schemes delivering good member outcomes. This is a key focus for us, through our ongoing programme on 21st century trusteeship and governance, which can be found at **www.thepensionsregulator.gov.uk/21st-century-trusteeship**.

We are pleased that there appears to be a greater awareness of their governance duties among scheme managers and pension boards[1]. However, we remain concerned that scheme managers are not always working well with pension boards. While 85% of surveys were completed

1
Further information regarding the roles and responsibilities of those involved in governing public service pensions schemes can be found at **www.thepensionsregulator.gov.uk/public-service-schemes/roles-and-responsibilities.aspx**

with the involvement of the scheme manager, the pension board chair was only involved in 45% of responses, and pension board members in just 16%. This may lead to a biased or unbalanced view of the performance and risks facing the scheme.

We also have doubts about the commitment shown towards scheme governance. Encouragingly, while 88% of scheme managers or their representatives now attend every pension board meeting, these meetings occur less than quarterly in 43% of schemes. This appears to only be an issue in locally administered schemes, and is independent of the size or structure of a scheme. We do not believe that schemes can be governed effectively through occasional meetings, particularly given the time dependent nature of many of the issues to be addressed.

The infrequent nature of meetings in many schemes may result in a superficial assessment of the challenges they face. Despite four-fifths (80%) of schemes saying they had the resources and knowledge needed to run the scheme effectively, a third (31%) do not actually regularly evaluate the performance or effectiveness of the board.

Over the coming year we will continue to focus on improving governance in public service pension schemes. In addition to our 21st century governance work, we will continue to educate scheme managers and pension boards through face-to-face meetings, and we will work with scheme advisory boards and other stakeholders to reach disengaged scheme managers. The vast majority of respondents have used the resources on the public service section of our website and have found them useful. We would encourage schemes to make further use of them. Materials online include practical guidance on how to comply with legal requirements such as an example risk register, an internal controls checklist and a self assessment tool enabling schemes to identify issues and ways to address them.

Engagement by TPR was identified by 43% of schemes as a driver of improved governance and administration in the last year. We believe by clearly communicating about the standards we expect from all parties, and by providing tools to help schemes meet these standards, we can continue to support improvements in governance and administration. Schemes and other interested parties may request a speaker from TPR at their events by using our speaker request form at **https://secure.thepensionsregulator.gov.uk/speaker-request.aspx**.

Record-keeping

Failure to maintain complete and accurate member records will affect a scheme's ability to carry out its most basic function; paying the right members the right benefits at the right time. Record-keeping issues in public service schemes are well known and 39% of respondents identified this as a top risk to their scheme. Schemes reported that almost a fifth (18%) of breaches of law were caused by a failure to maintain records or rectify errors.

Data

We have made our expectation clear that all schemes should do an annual data review. However, 17% of schemes had not carried out a data review in the last twelve months, and a further 8% were not sure. The value of regular data reviews is clear; 69% of schemes carrying them out identified issues, an increase of 9% from last year. However, the survey still raises concerns about how effective some of the data reviews have been. It is questionable that just over a quarter (28%) that had carried out a review did not identify any issues.

We are aware that some schemes have embarked on a multi-year process intended to review and reconcile their data and we welcome this activity. While the scope of these plans is not clear, we are not surprised that few schemes have completed the rectification of their data (7%), given the scale of the projects to be undertaken. It may be difficult and uneconomic to rectify all data issues at one time, and we support schemes that prioritise the work in a structured, sequential way.

In the past year, we have set out our expectations around data security and provided additional guidance on developing a good data improvement plan. We will consider enforcement action where scheme managers fail to demonstrate that they are taking appropriate steps to improve their records, including having a robust improvement plan in place.

For the first time, the 2018 scheme return will ask schemes to report on their common and scheme specific data scores. While our research indicates that a good proportion of schemes are familiar with these terms, we will be producing further material for scheme managers on this subject. We also intend to work with scheme advisory boards this year to encourage the creation of common data standards that can be adopted by employers to ease the problems faced by schemes and their employers.

Employer compliance with data standards continues to be an issue for schemes and was recognised as a barrier to improving governance and administration by 28% of schemes. Timely data was provided to all employers in just 37% of schemes, and accurate data was received from all employers by less than a third (30%) of schemes. Scheme managers should work with employers to ensure processes are effective and fit for purpose, and take action to rectify issues in the first instance. The use of penalties by schemes remains low, and we would encourage schemes to take all reasonable measures available to them before asking us to intervene with our own powers.

Administration

Pension boards should pay close attention to the performance of their scheme administrators, since they are critical to the good running of the scheme. It is notable that two of the top three causes of complaints received by schemes[2] have a basis in poor administration and poor record-keeping.

We have made it clear that schemes and pension boards should focus on administration as a key influence on data quality and member outcomes. It is therefore disappointing that administrators operate without service level agreements in place in over a quarter (26%) of schemes and that only a fifth (20%) of schemes use penalties where service or contractual standards are not met. This lack of accountability by administrators is most noticeable in the 46% of schemes that are managed in-house, or where administration is outsourced to another public body (24%).

Schemes should ensure that administration is a feature of every pension board meeting (24% currently do not), so they have sight of emerging issues and trends. Administrators can also provide regular reports to the scheme manager (17% of schemes do not do this). Schemes may wish to consider whether to obtain assurance reports on the performance of their administrators, or to commission assurance reports themselves.

2
Inaccuracies or disputes around pension value or definition (31%) and slow or ineffective communication (30%)

Internal controls

Scheme managers, pension board members and other parties have a duty to report breaches of the law to us in certain circumstances. Nine out of ten schemes (90%) now have procedures in place to identify (92%) and report (91%) breaches of law. This is a significant improvement from previous years. Fewer schemes had identified or reported any breaches of law this year, and we attribute this to the improvement in producing annual benefit statements. However, we remain concerned that schemes may be choosing not to report material breaches in certain circumstances as they are concerned about the potential consequences.

Member communications

Public service schemes must provide annual benefit statements to active members by a specific deadline, generally 31 August. This year, respondents reported that 92% of members received their annual benefit statement on time, a significant improvement on the 75% seen in 2016. However, only 60% of respondents reported that all their members received their statements on time. We recognise that public service pension schemes initially faced challenges meeting their new duties. However, we expect schemes to have made significant progress by now and will have much less tolerance for shortcomings this year.

Taking action

Scheme managers should be aware that we are more likely to use our enforcement powers this year. Where we open cases, we will work with the schemes involved to resolve gaps in their risk and breach of law processes. When considering action or setting fines, we will take into account a party's co-operation with us, and their efforts to put things right. For example, those who fail to report breaches to us quickly could receive a higher penalty for a breach, and an additional penalty for a failure to report. You can find further information in our monetary penalty policy at **www.tpr.gov.uk/ps-monetary**.

We have taken, and will take, enforcement action where scheme managers have not taken sufficient action to address issues or meet their duties. In line with our compliance and enforcement policy (found at **www.tpr.gov.uk/strategy**), we will continue to publish reports of our regulatory activities - including enforcement activity - to encourage higher standards.

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Public service governance and administration survey
Summary of results and commentary

The Pensions Regulator

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7 September 2018

Public Service Pension Schemes: valuations update

On 6 September 2018, the Chief Secretary to the Treasury, Elizabeth Truss, provided an update to Parliament on the actuarial valuations of the public service pension schemes. Her statement included an indication of the likely consequences of the valuations for member benefits and employer contribution rates. This bulletin provides an overview of that statement and associated publications issued by HM Treasury.

Valuing the public service pension schemes - background, purpose and emerging results

Following the final report of the Independent Public Service Pensions Commission in 2011, reforms were made to public service pension schemes (PSPSs). New career average re-valued earnings schemes were put in place, typically with effect from April 2015. A new framework for actuarial valuations was established, allowing for greater risk-sharing between members and taxpayers. The four-yearly valuations have two key purposes:

Public service pension schemes: the two purposes of the actuarial valuations

a) To measure certain costs of the scheme against a target rate; the "employer cost cap": This implements the cost cap mechanism which shares the risks of unexpected costs between members and taxpayers.

b) To set the employer contribution rate: When combined with member contributions, contributions are expected to meet the full cost of pension benefits being earned, including past service effects.

The first valuations conducted under this framework generally had an effective date of 31 March 2012, with different dates applying for the local government schemes. You can find more information about these previous valuations in this GAD Technical Bulletin and HM Treasury (HMT) policy paper, both from 2014.

The next round of valuations typically has an effective date of 31 March 2016. GAD has been working with schemes on these valuations and whilst final results are not yet available, the Chief Secretary to the Treasury's (CST) statement notes that early indications show that:

- for some schemes the cost cap (or cost control) mechanism will lead to improved pension benefits for members in respect of employment between April 2019 and March 2023
- the contribution rate that employers pay towards their schemes will need to increase

Understanding the cost cap mechanism and how it relates to employer contributions

The previous valuations calculated a figure for each scheme known as the 'employer cost cap'. Expressed as a percentage of pensionable pay, this is a target rate reflecting the cost of benefit accrual in the reformed scheme. The current valuations measure certain costs of the scheme relative to the cost cap mechanism for the first time. If these costs are more than 2% of pensionable pay above or below the scheme-specific target rate then a breach has occurred and steps must be taken to return costs to the level of the employer cost cap. This can be achieved either by adjusting future benefits or member contributions, or a combination of both.

The employer cost cap is not directly comparable to the employer contribution rate. This is because the cost cap mechanism does not calculate the full cost of the scheme, as members do not share in all scheme risks. Various elements needed to capture the full cost of the scheme are excluded from the cost cap mechanism - for example, the cost cap mechanism is not affected by changes in actuarial methodology or changes to the discount rate used and does not measure costs associated with deferred or pensioner members of the pre-reformed schemes.

Initial valuation results

The cost cap mechanism: Early indications in some schemes show that the costs measured by the cost cap mechanism have decreased by more than the 2% of pensionable pay threshold. If the cost cap floor is breached, this measure of scheme costs will need to be returned to its target value. For each scheme which experiences a breach, discussions will be required between those responsible for the scheme and the Scheme Advisory Board introduced by the Public Service Pensions Act 2013 and the Public Service Pensions Act (Northern Ireland) 2014. If no agreement can be reached following a cost cap breach, legislation generally requires that the rate at which benefits accrue will be amended. A breach of the floor of the cost cap would, for future accruals, lead to an increase in the accrual rate in the reformed schemes.

New information, which affects some key valuation assumptions, helps to explain the fall in the costs of the scheme measured in the cost cap mechanism:

- the Office for Budget Responsibility (OBR) has reduced its forecasts of short-term pay growth and updated the period over which these apply, meaning accrued final salary pensions are now expected to be less costly
- the latest population projections from the Office for National Statistics (ONS) show forecasts of future life expectancy have reduced, so pensions will typically be paid for a shorter period than previously expected

These factors mean that schemes are now expecting lower costs to pay future pension payments. Whilst these factors are also reflected in expected changes to employer contribution rates, these downward cost pressures can be more than offset by upward cost pressures outside the cost cap mechanism, such as changes to the discount rate.

The employer contribution rate: The CST stated that early indications suggest that the amount employers pay towards the schemes will need to increase. This increase is largely driven by a decrease in the discount rate used to assess the current cost of future payments from the schemes. Known as the SCAPE rate, this discount rate is based on the OBR's long-term projections of GDP growth (and is not captured within the cost cap mechanism). Budget 2016 announced a reduction in the annual rate from 3.0% above the Consumer Prices Index (CPI) to 2.8% above CPI. The CST has now proposed a further reduction, to take effect from April 2019, to 2.4% above CPI. This figure that will be confirmed in due course and formally announced at a later date.

Updated Treasury Directions

The Directions specify how to carry out the valuations, including what information to disclose in the valuation reports, so that all the schemes' valuations are carried out consistently and transparently. The Directions instruct schemes how to set various assumptions. Some are specified explicitly whilst others must be determined by each scheme as a best estimate (so with no margin for prudence or optimism).

The HMT Directions were originally published in 2014 and are effectively an instruction manual to calculate valuation results and operate the cost cap mechanism. This instruction manual must now be updated so that it is suitable to calculate the current valuation results. Alongside the ministerial statement, HMT has published draft amending directions, intended to deliver the required changes.

- **Change in SCAPE discount rate:** The draft amendments propose to change the value of the SCAPE discount rate used in the valuations to 2.4% above CPI, with effect from April 2019.
- **Rectification of cost cap breaches:** Since some schemes are expected to breach the cost cap, details have been added to the Directions on the process of how to rectify a breach. If a scheme breaches the cost cap mechanism, the scheme actuary has to provide a certificate confirming that the proposed changes to benefits and/or contributions bring the costs of the scheme back to the target level. The certificate must also provide the revised employer contribution rate, allowing for these changes.
- **Other amending directions** include: updates to assumptions to allow for recent scheme experience and the latest OBR and ONS projections; requirements for additional disclosures in the valuation report; bringing the cycle of local government valuations into line with the other schemes and various changes to address certain scheme-specific issues.

HMT has also published a technical annex outlining the reasons behind the amendments and a letter to the Trades Union Congress. The Northern Ireland Department of Finance published equivalent Directions in 2014 and will shortly issue corresponding draft amending directions.

Next steps

The Directions will be finalised once key stakeholders have had time to comment on the draft and a statutory consultation with the Government Actuary has been completed. The final valuation results are expected later this year.

The UK government is committed to implementing the results of the valuations but also to keeping the cost cap mechanism under review. Accordingly, the Government Actuary will be asked to review the mechanism to check whether it is working as intended and delivering the government's objectives. This review will conclude before the next round of four-yearly actuarial valuations - which will be undertaken as at 31 March 2020 with provisional results perhaps emerging during 2022.

If you would like to discuss any of these issues in more detail or have any questions please get in touch with your usual GAD contact.

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For details of our management team and office address please visit: www.gov.uk/gad

HM Treasury

The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018

The Treasury, in exercise of the powers conferred on them by sections 11(2) and 12(3) of the Public Service Pensions Act 2013(**a**), make the following Directions.

Citation and entry into force

1. These Directions may be cited as the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018, and come into force on the date that they are signed.

Amendment of the 2014 Directions

2. The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 are amended as follows.

Interpretation

3. In direction 2 (interpretation), at the appropriate place insert—

"“commuted portion” has the meaning given by rule B7(2) of the Firefighters’ Pension Scheme Order 1992 or is within the meaning of rule B7(2) of the Police Pensions Regulations 1987, as appropriate;”.

Effective date, from 2018

4. In direction 6(1) (effective date), after sub-paragraph (a) insert—

“(aa) in relation to a scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, 31st March 2020;”.

5. For direction 6(2), substitute—

“(2) In relation to a scheme providing benefits to local government workers in Scotland—

(a) the second valuation of a scheme must have an effective date of 31st March 2020; and

(b) each subsequent valuation must have an effective date four years later than the second (or subsequent) valuations.

(3) The second, and each subsequent, valuation of any other scheme must have an effective date which is four years later than the effective date of the first (or subsequent) valuations.”.

Implementation period

6. In direction 8(a) (implementation period)—

(a) after “workers” insert “in Scotland”;

(**a**) 2013 c. 25.

(b) after “date” insert “for the valuation with an effective date of 31 March 2017”.

Pension increase assumptions

7. In direction 14(2) (assumed rate of pension increases where rate not set by order), for sub-paragraphs (a) to (d) substitute—

"(a) 2.2% on 8th April 2019;

(b) 1.8% on 6th April 2020; and

(c) 2% on the first Monday in each tax year subsequently”.

Earnings assumptions

8. In direction 16 (earnings measure), for sub-paragraphs (a) to (e) substitute—

“(a) 2.7% during the calendar year ending on 31st March 2019;

(b) 2.4% during the calendar year ending on 31st March 2020;

(c) 2.5% during the calendar year ending on 31st March 2021;

(d) 2.8% during the calendar year ending on 31st March 2022;

(e) 3% during the calendar year ending on 31st March 2023; and

(f) 4.2% during each calendar year from 1st April 2023.”.

9. In direction 17 (public earnings growth), for sub-paragraphs (a) to (h) substitute—

“(a) 1.2% during the calendar year ending on 31st March 2017;

(b) 2.2% during the calendar year ending on 31st March 2018;

(c) 2.1% during the calendar year ending on 31st March 2019;

(d) 2.3% during the calendar year ending on 31st March 2020;

(e) 2.6% during the calendar year ending on 31st March 2021;

(f) 2.8% during the calendar year ending on 31st March 2022;

(g) 3% during the calendar year ending on 31st March 2023; and

(h) 4.2% during each calendar year from 1st April 2023.”.

SCAPE discount rate

10. In direction 18(a), for “3%” substitute “2.8% from 1st April 2016 to 31st March 2019 and compounded with 2.4% from 1st April 2019”.

Assumed mortality rate

11. In direction 18(b), for “2012” substitute “2016”.

Commutation assumption

12. In direction 18(e), for “15%” substitute “17.5%”.

Contents of valuation report

13. For direction 21 (contents of the valuation report: information about the scheme and data), substitute—

“**21.**—(1) The valuation report prepared by the scheme actuary must include—

(a) information regarding the scheme membership used to carry out the valuation, including a summary of—

(i) scheme membership and other data used;

(ii) the checks carried out on the data by the scheme actuary, and the limitations of those checks; and

(iii) any adjustments or projections made to the data by the scheme actuary, the approach used in making them, and the rationale for them;

(b) a statement of the average age of the scheme members in pensionable service at the effective date;

(c) a statement of the average expected future pensionable service of the scheme members in pensionable service at the effective date, calculated in accordance with the requirements as to data, assumptions and methodology specified by these Directions;

(d) a statement of the total projected pensionable payroll, in nominal terms, at each of—

(i) the effective date;

(ii) the implementation date; and

(iii) the last day of the implementation period;

(e) a statement that the valuation results have been calculated in accordance with the requirements as to data, assumptions, and methodology specified by these Directions;

(f) a summary of the regulations, directions, and professional standards relating to the valuation;

(g) a summary of the main provisions of the scheme (with a separate summary for the main provisions of the scheme made under section 1 of the 2013 Act and those of any connected scheme);

(h) an analysis of the demographic experience carried out in accordance with direction 20;

(i) a statement of the assumptions used by the scheme actuary in preparing the report, including—

(i) a summary of the assumptions adopted for each of the assumptions determined by the responsible authority under direction 19;

(ii) a statement of how regard has been had to the matters listed in direction 19(d) when determining the assumptions adopted for each of the assumptions determined by the responsible authority under direction 19(e);

(iii) an illustration of the main sensitivities of the valuation results to the assumptions, including the sensitivities mentioned in paragraph (2);

(j) a summary of any other liability of the scheme that the responsible authority has told the scheme actuary that it considers to be relevant; and

(k) any other matters that the scheme actuary considers to be relevant.

(2) The sensitivities to be illustrated must include the main sensitivities to—

(a) the number of years specified in direction 13(2) (period contribution rates payable); and

(b) the assumptions specified in directions 14 (pension increases), 15 (price measure revaluations), 16 (earnings measure revaluations), 17 (earnings growth), 18(a) (SCAPE discount rate), 18(d) (state pension age), 18(e) (surrendered pension).

Contents of the valuation report: cost cap

14. In direction 23(a) (contents of the valuation report: cost cap)—

(a) after “42” omit “and”;

(b) at the appropriate place insert—

“(xiv) the cost cap difference calculated in accordance with direction 42A; and”.

Notional assets

15. For direction 25(2) (notional assets) substitute—

"(2) The income received by the scheme for the purpose of the calculation at paragraph (1) must—

(a) include, but is not limited to, employer contributions, employee contributions and incoming transfer values;

(b) exclude payments received from the Consolidated Fund for the payment of—

(i) interim payment amounts, within the meaning of regulation 49 of the Judicial Pensions (Fee-Paid Judges) Regulations 2017 and any interest and compensation paid on those amounts; and

(ii) commuted portions required to be paid following revisions of the tables produced under rule B7(3) of the Firefighters' Pension Scheme Order 1992 or rule B7(7) of the Police Pensions Regulations 1987 that took effect on 1st December 2001 or 1st December 2004, any interest and compensation paid in respect of members as a result of those revisions.

16. For direction 25(3), substitute—

"(3) The benefits paid by the scheme for the purpose of the calculation at paragraph (1) must—

(a) include, but are not limited to—

(i) benefits paid to pensioners and dependants;

(ii) outgoing transfer values;

(iii) interim payment amounts, within the meaning of regulation 49 of the Judicial Pensions (Fee-Paid Judges) Regulations 2017 and any interest paid on those amounts; and

(iv) commuted portions required to be paid following revisions of the tables produced under rule B7(3) of the Firefighters' Pension Scheme Order 1992 or rule B7(7) of the Police Pensions Regulations 1987 that took effect from 1st December 2001 or 1st December 2004 and interest paid in respect of members as a result of those revisions;

(b) exclude compensation paid to members as a result of Part 7 of the Judicial Pensions (Fee-Paid Judges) Regulations 2017 or those revisions.

17. In direction 25(4)—

(a) at the end of sub-paragraph (a), omit "and";

(b) for sub-paragraph (b) substitute—

"(b) for each calendar year ending on 31st March from the calendar year ending on 31st March 2011 to the calendar year ending 31st March 2016, using the rate of increases awarded by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 in the April immediately following the year in question, compounded with 3%;

(c) for each calendar year ending on 31st March from the calendar year starting on 1st April 2016 to the calendar year ending on 31st March 2019, using the rate of increases awarded by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 in the April immediately following the year in question, compounded with 2.8%; and

(d) for each calendar year ending on 31st March from the calendar year starting on 1st April 2019, using the rate of increases awarded by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 in the April immediately following the year in question, compounded with 2.4%.".

Prior value of the cost cap fund

18. In direction 30 (prior value of the cost cap fund), at the end of paragraph (1)(b)(ii) for "; and" substitute "except—

(aa) for direction 16 (earnings measure) a percentage figure of 4.2% applies from the first Monday in each tax year from 6th April 2020;

(bb) for direction 17 (public earnings growth) a percentage figure of 4.2% applies from each calendar year starting on 1st April 2019;

(cc) for direction 18(a) (SCAPE discount rate) the percentage figure is 2.4%; and".

Cost cap fund contribution rate

19. In direction 32(2) (cost cap fund contribution rate), after "Directions" insert "except with the assumptions that—

(a) for direction 16 (earnings measure) a percentage figure of 4.2% applies from the first Monday in each tax year from 6th April 2020;

(b) for direction 17 (public earnings growth) a percentage figure of 4.2% applies for each calendar year starting on 1st April 2019; and

(c) for direction 18(a) (SCAPE discount rate) the percentage figure is 2.4%".

20. In direction 32(4), after "scheme" insert "except with the assumption that for direction 18(a) the percentage figure is 2.4%".

Cost cap net leavers liabilities

21. In direction 35(2) (cost cap leavers liabilities)—

(a) at the end of sub-paragraph (c) omit "and";

(b) at the end of sub-paragraph (d) for "." substitute ";";

(c) at the appropriate place insert—

"(e) for the first valuation, calculate A and B in paragraph (1) using the methodology and assumptions that were used to calculate the employer contribution rate in accordance with direction 29 for the preliminary valuation save that—

(i) for direction 16 (earnings measure) a percentage figure of 4.2% applies from the first Monday in each tax year from 6th April 2020;

(ii) for direction 17 (public earnings growth) a percentage figure of 4.2% applies for each calendar year starting on 1st April 2019; and

(iii) for direction 18(a) (SCAPE discount rate) the percentage figure is 2.4%; and

(f) for the second and subsequent valuations, calculate A and B in paragraph (1) using the methodology and assumptions that were used to calculate the employer contribution rate in accordance with direction 29 for the previous valuation save that for direction 18(a) the percentage figure is 2.4%.".

Cost cap notional investment returns

22. In direction 36(2) (cost cap notional investment returns) in sub-paragraph (b) for "3%" substitute "2.4%".

Cost cap liabilities

23. In direction 39 (cost cap liabilities), at the appropriate place insert—

"(3) For the purpose of calculating A and B, the percentage figure for direction 18(a) (SCAPE discount rate) is 2.4% from 1st April 2016."

Cost cap future service cost

24. In direction 40(2) (cost cap future service costs) for the words "on 11th April 2016" substitute "from the first Monday in each tax year from 8th April 2019".

25. In direction 40(3) for the words from "is" to the end of the paragraph substitute "is 4.2% from the first Monday in each tax year from 8th April 2019."

Cost cap past service cost

26. In direction 41 (cost cap past service cost) at the end insert—

"For the purpose of calculating this cost, the percentage figure for direction 18(a) (SCAPE discount rate) is 2.4% from 1st April 2016.".

Cost cap and cost cap difference

27. For direction 42 (cost cap cost of the scheme) substitute—

"Cost cap cost of the scheme

42. The cost cap cost of the scheme must be calculated as—

$$((A+B)-C)-D$$

where—

A is the cost cap future service cost, calculated in accordance with direction 40;

B is the cost cap past service cost calculated in accordance with direction 41;

C is the cost cap contribution yield calculated in accordance with direction 31;

D is the cost cap difference calculated in accordance with direction 42A.

Cost cap difference

42A. The cost cap difference must be calculated as—

$$A-B$$

where—

A is the proposed employer cost cap set at the time of the preliminary valuation ("the preliminary cost cap") in accordance with direction 53 but re-calculated as though at that time—

(i) for direction 16 (earnings measure) a percentage figure 4.2% applied from the first Monday in each tax year from 6 April 2020;

(ii) for direction 17 (public earnings growth) a percentage figure of 4.2% applied for each calendar year from 1st April 2019;

(iii) for direction 53(4)(a) to (d) (proposed employer cost cap: earnings measure) a percentage figure of 4.2% applied in each instance;

(iv) for direction 18(a) (SCAPE discount rate) the percentage figure was 2.4%; and

B is the preliminary cost cap.".

Cost cap analysis

28. In direction 43(b)(iv)(hh) (cost cap analysis) for "2019" substitute "2023".

Certification

29. After direction 49 insert—

"**Certification**

49A. Where—

(a) a notification has been issued under direction 49(2); and

(b) the responsible authority has provided the scheme actuary with the decision made under section 12(6) of the Public Service Pensions Act 2013 as to the steps to be taken to achieve the target cost for the scheme;

the scheme actuary must issue a certificate within three months of receiving the decision.

49B. The certificate must state—

(a) the steps to be taken to achieve the target cost for the scheme;

(b) the cost cap cost of the scheme that would result from implementation of the steps to be taken to achieve the target cost for the scheme; and

(c) the employer contribution rate that would result from implementation of the steps to be taken to achieve the target cost for the scheme.

49C. The cost cap cost of the scheme calculated for the purpose of direction 49B(b) must be calculated in accordance with direction 42, except that the calculation should assume that the steps to be taken to achieve the target cost for the scheme are in force.

49D. The employer contribution rate calculated for the purpose of direction 49B(c) must be calculated in accordance with direction 29, except that the calculation should assume that the steps to be taken to achieve the target cost for the scheme are in force.".

Preliminary valuation

30. In direction 50(d) (preliminary valuation), for the words "the data" to the end, substitute—

"the following data, methodology and assumptions so far as they are applicable to directions 24 to 29 and 44 to 46—

(i) direction 14 save that the percentage figures are 2.7% for 7th April 2014, 2.2% for 6th April 2015, 2.1% for 11th April 2016 and 2% for the first Monday in each subsequent tax year;

(ii) direction 15 subject to the modification provided by this sub-paragraph;

(iii) direction 16 save that the percentage figures are 3.4% for 11th April 2016, 3.6% for 10th April 2017, 3.7% for 9th April 2018, 3.7% for 8th April 2019 and 4.75% for the first Monday in each subsequent tax year;

(iv) direction 17 save that the percentage figures in the sub-paragraphs are 1.8% for 31st March 2013, 0.5% for 31st March 2014, 1.5% for 31st March 2015, 2% for 31st March 2016, 2.5% for 31st March 2017, 3% for 31st March 2018, 3% for 31st March 2019 and 4.75% for each calendar year from 1st April 2019;

(v) direction 18 save that—

(a) the percentage figures in sub-paragraph (a) are 3%;

(b) the principle population projections for the UK in sub-paragraph (b) are those of 2012; and

(c) the percentage figure in sub-paragraph (e) is 15%;

(vi) the data, methodology and assumptions applied by direction 19 must be those that were applied in any previous preliminary valuation report;”.

31. In direction 50(f)(ii), after paragraph (bb) insert—

“(bc) in relation to an existing scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, 31st March 2015;”.

32. In direction 50(f)(iii), after paragraph (bb) insert—

“(bc) in relation to an existing scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, 1st April 2017;”.

33. In direction 50(f)(iv), after “direction 8” insert “or, in the case of a scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, calculated as the period of six years from the implementation date”.

Schedules

34. In schedule 1 (connected schemes) to the Directions, after the entry for Civil servants, insert—

Other civil servants	The pension schemes made under section 1 of the Superannuation Act 1972 for employees of the Secret Intelligence Service or Security Service which came into operation on 1st June 1972, 1st December 1998 or 1st October 2002. The pension scheme established for certain employees of the Secret Intelligence Service which came into operation on 1st January 1946, as amended on 1st September 1957 and 1st July 1964.

35. In schedule 2 (notional assets for first valuation) to the Directions—

(i) In the entry for “Civil servants”, in the column headed “Notional Asset Value” for “£97,700,000,000” substitute “£95,400,000,000”;

(ii) after the entry for Civil servants, insert—

Other civil servants	£1,877,000,000	31st March 2015

36. In schedule 3 (preliminary valuation) to the Directions, after the entry for Civil servants, insert—

Other civil servants	The pension schemes made under section 1 of the Superannuation Act 1972 for employees of the Secret Intelligence Service or Security Service which came into operation on 1st June 1972, 1st December 1998 or 1st October 2002. The pension scheme established for certain employees of the Secret Intelligence Service which came	The Civil Service (Other Crown Servants) Pension Scheme Regulations 2016	1st April 2016

	into operation on 1st January 1946, as amended on 1st September 1957 and 1st July 1964.		

Signed

[Name]
Director General, Public Spending and Finance
for Her Majesty's Treasury

[Date]

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