

Pension Fund Committee

12 March 2020

Pension Administration Report



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 This report briefs the Committee on developments in both matters that are Local Government Pension Scheme (LGPS) specific as well as providing an update on non-LGPS specific matters which are of interest.

Executive summary

- 2 There are a number of developments that will potentially impact the requirements placed upon the Fund, both specific to the LGPS and more generally. This report seeks to keep the Committee updated with those developments

Recommendation(s)

- 3 Committee is asked to note the report.

Background

- 4 This report provides an update to Committee on important pensions administration and governance matters that are currently relevant. The report is split into 2 main sections:
 - (a) LGPS specific matters, and;
 - (b) Non-LGPS specific matters that are of interest to the Committee.

LGPS Specific Matters

MHCLG Consultation – LGPS: Fair Deal – Strengthening Pension Protection

- 5 In January 2019, MHCLG launched a consultation that would strengthen the pensions protections that apply when an employee of an LGPS employer is compulsorily transferred to the employment of a service provider. If the proposed amendments are introduced, the option for staff to be granted access to a Government Actuary's Department (GAD) certified broadly comparable scheme will be removed.
- 6 MHCLG are currently considering the responses received, with a consultation response expected in due course. Officers will continue to monitor the position.

MHCLG consultation – LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk

- 7 In May 2019 MHCLG consulted on a number of changes to the LGPS, encompassing the following areas:
 - amendments to the local fund valuations from the current 3 year (triennial) to a 4-year (quadrennial) cycle
 - a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
 - proposals for flexibility on exit payments
 - proposals for further policy changes to exit credits
 - proposals for changes to the employers required to offer local government pension scheme membership

- 8 On 27 February MHCLG published a partial response to the consultation, covering proposals on exit credits only. MHCLG confirmed their intention to amend the Regulations providing greater discretion to Administering Authorities over the amount of any exit credit. The Local Government Pension Scheme (Amendment) Regulations 2020 were subsequently laid before parliament, coming into force on 20 March 2020 with backdated effect to 18 May 2018.
- 9 Officers are taking advice on the impact of the Amendment Regulations and will continue to monitor the position regards the remainder of the Consultation. Committee will be updated accordingly.

Ongoing Consultation – Guaranteed Minimum Pensions (GMP)

- 10 In February 2017 the Treasury consulted on options for how the Guaranteed Minimum Pension (GMP) element of pensions paid to those members who will reach state pension age on or after 6th December 2018 should be indexed.
- 11 In January 2018 the Treasury published its response to this consultation, acknowledging that it is a complex area with more time required to identify a long-term solution. As a result, the existing interim solution was extended, covering those members of public service schemes reaching state pension age between 6th April 2016 and 5th December 2018 to those that reach state pension age on or before 5th April 2021. Further time will then be taken to identify a longer-term solution.
- 12 Further consultation is expected so that a long-term solution can be implemented. The Committee will be kept up to date on this matter.

LGPS Scheme Advisory Board (SAB)

SAB Review – Academies

- 13 In 2017 SAB instigated a review of the participation of existing academies and commissioned Price Waterhouse Coopers to investigate issues of academy participation in the LGPS and prepare a report for the Board. The report made no recommendations but set out three broad types of approach or mechanisms to try and resolve these issues. These are:
 - non-regulatory measures within the LGPS
 - regulatory measures within the scheme, and
 - measures outside of the LGPS, including through primary legislation.

- 14 The SAB review has been split between a funding working group and an administration working group. Work on the administration working group was put on hold due to competing work pressures; however, this has now been lifted and work on this is to resume.
- 15 Officers will continue to monitor the position and update Committee accordingly.

SAB Review – Tier 3 Employers

- 16 In addition to the review of Academy participation, above, SAB also commissioned work in respect of 'Tier 3' employers participating in the LGPS. Broadly, Tier 3 employers are those employers which:
 - (i) have no tax raising powers,
 - (ii) are not backed by an employer with tax raising powers;
 - (iii) are not an academy.
- 17 SAB has established a small working group to review concerns expressed by Tier 3 employers and the ways in which they may be resolved. The working group is tasked with reporting back to the SAB with a set of recommendations for further consideration.
- 18 The Committee will be updated as this matter progresses.

SAB Review – Good Governance in the LGPS

- 19 SAB is currently examining the effectiveness of current LGPS governance models with a focus on standards, consistency, representation, conflict management, clarity of roles and cost. The Board will consider a detailed paper in May 2020 which will likely result in new statutory guidance on Governance Compliance, with consideration in particular likely to be given to:
 - (a) changes to the scheme's regulatory provisions on Governance Compliance Statements,
 - (b) revised statutory guidance on Governance Compliance Statements,
 - (c) independent assessment of Governance Compliance Statements, and;
 - (d) establishing a set of Key Performance Indicators (KPIs)
- 20 Officers will provide a more detailed update to Committee in June after SAB has considered the matter further in May, taking into

account The Pensions Regulator's own review on Governance and Administration Risks in Public Service Pension Schemes.

SAB Review – Responsible Investment Guidance

- 21 In November, SAB drafted guidance for Responsible Investment in the LGPS, to clarify the parameters within which investment decisions can be made with regard to the integration of ESG factors. Following feedback, SAB has decided to take stock until more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill and the implications of the Supreme Court's judgement involving the Palestine Solidarity Campaign.
- 22 Committee will be updated as the matter progresses.

Cost Management Review/McCloud

- 23 Committee has been informed previously of the Cost Management Review in the LGPS and how this was largely superseded by the anticipated implications of the Court of Appeal judgements in McCloud and Sargeant.
- 24 The Fund's position on McCloud has been discussed previously, with the Actuary outlining in detail at the Annual General Meeting how the issue will be reflected in the valuation. The Fund will add an additional 0.9% to the employer contribution rate for all employers at the 2019 valuation.
- 25 Committee will be updated on progress with both McCloud and Cost Management

Non- LGPS Specific Matters

Public Sector Exit Payments Cap

- 26 The Small Business, Enterprise and Employment Act 2015 introduced the concept of a 'public sector exit payments cap'. The legislation provides that exit payments to be paid to a person are not to exceed £95,000. The 2015 Act provided the overarching principles of how the exit cap was to operate, but the detail was to be prescribed in regulations that were expected to soon follow.
- 27 After a period of delay the Treasury launched a new consultation on this matter in April 2019. Included in the consultation were draft regulations called 'The Restriction of Public Sector Exit Payment

Regulations 2019' which provided detail on how the exit cap will operate from an employer's perspective.

- 28 Under the Regulations, it is proposed that the exit cap will be phased into the public sector, but local government is covered by phase 1. The exit payment cap is to remain at £95,000 and includes:
- redundancy payment(s);
 - any payment to offset an actuarial reduction to a pension arising by virtue of early retirement (known as 'strain on the fund' or 'early release' cost);
 - any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement;
 - any severance payment or ex gratia payment;
 - any payment in the form of shares or share options;
 - any payment on voluntary exit;
 - any payment in lieu of notice due under a contract of employment;
 - any payment made to extinguish any liability under a fixed term contract;
 - any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment or loss of office.
- 29 Most significantly for the LGPS, is the inclusion of the 'strain on the fund' costs are included towards the cap. These costs of allowing unreduced access to pension benefits for members over 55 can exceed £95,000 for scheme members with long periods of membership.
- 30 The Treasury is currently considering responses to the Consultation, and Officers will update the Committee as the matter progresses.

Changes to Retail Price Index (RPI)

- 31 Following discussions between the UK Statistics Authority (UKSA), HM Treasury and the House Lords Economic Affairs Committee (HLEAC), the Chancellor of the Exchequer proposed a 2020 consultation on the alignment of RPI with CPIH. As current

experience suggests CPIH is 1% lower than RPI, alignment will mean a lower than expected income from index-linked gilts

- 32 The Chancellor has confirmed that the government will launch a consultation at Budget 2020 to understand the impact of the potential changes and consult on what changes should be made to RPI and when these should come into force. Further information can be found in the Technical Bulletin included in Appendix 1.
- 33 More detail on the impact of this issue was included as part of training for members of the Pension Fund Committee, which at the time of writing was scheduled to take place on 6 March 2020.

UK Stewardship Code 2020

- 34 The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Fund has previously signed up the Code, and BCPP also publish a UK Stewardship Code compliance statement.
- 35 Due to the significant changes in the Investment Market since the introduction of the first Code, The UK Stewardship Code 2020 is now being introduced. This new Code expands on the previous requirements and comprises a set of 12 Principles which require reporting and disclosure on an 'apply and explain' basis.
- 36 The LGPS (Management and Investment of Funds) 2016 Regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed a Responsible Investment Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.
- 37 Officers are currently considering the new Code, and will work in conjunction with BCPP to ensure compliance. A more detailed report will be provided to the Committee in due course.

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Appendix 1: GAD Technical Bulletin on RPI
