

WIRRAL COUNCIL

PENSIONS COMMITTEE

20 NOVEMBER 2012

SUBJECT:	LGPS UPDATE
WARDS AFFECTED:	ALL
REPORT OF:	INTERIM DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report updates Members of the progress of the 2014 LGPS reform project and the revised statutory consultation framework relating to the draft regulations.
- 1.2 It also covers the key provisions of the Public Service Pensions Bill and its impact on the Local Government Pension Scheme.

2.0 BACKGROUND AND KEY ISSUES

Reform of the LGPS – The 2014 Project

- 2.1 The original timetable to deliver the regulatory provisions of the 2014 scheme reform was scheduled to take place during the autumn. The statutory consultation has now been delayed by the Department for Communities and Local Government due to the complex provisions within the regulations.
- 2.2 It is understood that as an interim measure the policy intent and narrative around the likely regulatory design will be issued during October to provide the actuaries a steer with regard to determining the 2013 valuation.
- 2.3 It is expected that the draft regulations will not be issued until February/March 2013 with the final regulations receiving royal assent in April/May. The government are currently reviewing consultation processes with the aim to reduce consultation periods; permitting a range of timescales rather than defaulting to a 12-week period. This will be helpful in particular cases such as the LGPS 2014 reform, where extensive engagement has previously occurred; it may therefore be possible to still meet the milestones of the original project timetable.
- 2.4 The Software Suppliers Group (of which Heywoods are a member) had its first meeting at the end of September and confirmed that if the draft regulations are circulated in March 2013 they can commit to providing 2014 compliant software in advance of the implementation of the new Scheme.
- 2.5 A letter has been sent to the Government from the LGA and Unions, regarding the Workstream 2 deliberations covering governance, transparency and the cost

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mechanism of the new Scheme. However, the specific details of the letter have not been disclosed.

- 2.6 MPF is currently in dialogue with the LGA to define the shared working arrangement to deliver the national reform website – specifically, editorial responsibilities to ensure clarity in communicating the details of the Scheme to the membership.

Public Service Pension Bill

- 2.7 The Independent Public Service Pensions Commission published its final report in March 2011. The Government accepted its recommendations as the basis for consultation with public servants, trades unions and other member representatives.

The Public Service Pension Bill implements the agreements reached and introduces primary legislation to adopt a new common UK legal framework for public service pension provision.

- 2.8 The Bill was published on 13 September 2012 and hailed by the government as its proposal to cut the cost to taxpayers of public sector pensions by nearly one-half over the next fifty years. The aims are to:

- Enable the creation of new, fairer, Career Average public service pension schemes to replace the largest existing final salary schemes;
- Link normal pension ages to State Pension age to manage longevity risk;
- Introduce an employer cost cap to ensure unforeseen changes in cost are controlled to protect the taxpayer;
- Set out requirements for scheme governance, regulation and administration to deliver transparency and accountability;
- Allow for the provision of transitional arrangements and protections, where necessary.

- 2.9 The Bill is a framework Bill and its powers supersede those in the Superannuation Act 1972. It does not contain details on the individual scheme designs as this will be set out in secondary legislation and individual Scheme rules.

Public Service Pension Bill - Closure of the current schemes

- 2.10 The Bill provides that the existing scheme will be closed to future accrual with effect from 31 March 2014. This will pose a problem if enacted as written as councillors' active membership of the LGPS will end with no potential for further pension accrual. Consequently, to allow Councillors to remain members, either the Bill will have to be amended or provision will have to be made for their access to the main 2014 Scheme.

- 2.11 The Bill also addresses certain transitional issues, in particular that benefits which will have been accrued in the current scheme will continue to be linked to final salary when leaving.

Public Service Pension Bill - Governance

- 2.12 The Bill also sets out new provisions for the overall governance and regulation of the public service pension schemes as follows;
- Each scheme must have a scheme manager which is expected to be the Administering Authority responsible for administration, governance and a pension board. The provision enables the scheme manager to delegate responsibilities to a committee in which case the committee would become the pension board. The remit of the pension boards will be to ensure compliance with legislation, codes of practice and regulatory issues.
 - There is a significant role for the Pension Regulator in overseeing the operation of the scheme with the requirement to report overdue contributions, fraud and the implementation of a formal code of practice for scheme management.
 - There are also initial indications that the Treasury will have control to set the national assumptions for valuations which is causing concern to the project board responsible for securing the 2014 scheme design. The Treasury powers in this area are permissive and not mandatory and appear to dovetail with the fiduciary management of the unfunded schemes.
- 2.13 The DCLG, LGA and Unions have sent a joint paper to the Treasury seeking amendment to this provision. The intent is to raise awareness of the funded nature of the LGPS and calls for political pressure to be exerted within the commons to seek amendments to the bill, in recognition of the disparate financial management of the funded LGPS in comparison to the unfunded public sector schemes.
- 2.14 MPF has also written a letter to DCLG raising concerns to the prospect of the Treasury setting national valuation assumptions for all public sector schemes. The main focus relates to the disparate funded nature of the LGPS and the potential for employer contributions to be based on generic assumptions which do not take account of local experience.
- 2.15 The Bill will now work its way through Parliament before being enacted sometime during 2013. Individual schemes will then issue secondary legislation defining benefit structures and governance arrangements ahead of the commencement date for the new schemes.

3.0 RELEVANT RISKS

- 3.1 The potential for the Treasury to set national generic valuation assumptions will restrict the accountability link between local funds and council tax payers and removes the flexibility to manage funds to reflect local circumstances and raises issues with regard to the continuation of democratic accountability.
- 3.2 There is also a risk that if DCLG fail to issue the draft regulations within the new prescribed timeframe that the relevant system updates will be unavailable and contingency arrangements will be required to ensure continuity of effective service levels and statutory requirements.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 As the statutory consultation progresses and detail from the draft regulations appear and are clarified during calendar year 2013 – MPF needs to initiate a formal strategic change programme to overhaul current administration arrangements, resources and communications in regard a fundamental change to a Career Average pension arrangement with ongoing protections to the pre-2014 Final Salary scheme.

7.2 The 2014 reform of the LGPS emanating from the Public Service Bill, in particular the move from final salary to career average is not expected to realise immediate savings for scheme employers.

Although the Government Actuary Department has identified cost saving in the order of 2% of pay from the new scheme, this indicative saving would be dependant on the individual membership profile of each participating employer and the actual future pay growth for the LGPS.

As 70% of the membership are low paid with flat earning growth the increase in benefit entitlement from 1/60 to 1/49 actually equates to a 22.4% increase in benefit entitlement, which would increase costs for employers with an older demographic. Consequently, in saving costs the link between normal retirement age and State Pension Age is crucial.

As such it is essential that the cost control mechanism to be delivered under work stream 2 of the reform project is robust enough to deliver the necessary savings – thus ensuring the future affordability of the scheme to employers and the tax payer.

7.3 Employers' will also be required to change administration arrangements and consider resource implication in the provision of information and data to meet the new Scheme requirements (including ongoing protections).

7.4 It has been agreed with the LGA, that there will be reimbursement of any additional costs incurred in developing and maintaining the central national website for Scheme Reform.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

The Public Service Pension Bill has already been assessed by Government with regard to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None arising from this report

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report

12.0 RECOMMENDATION/S

12.1 That Members note the report.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

**REPORT AUTHOR: Yvonne Caddock
Principal Pension Officer
Telephone: 0151 242 1333**

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email: yvonnecaddock@wirral.gov.uk

APPENDICES

- 1- MPF Submission to DCLG on impacts of the Public Service Pension Bill on LGPS**

**REFERENCE MATERIAL
Public Service Pension Bill**

SUBJECT HISTORY (last 3 years)

Council Meeting	Date