

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

24 MARCH 2014

<b>SUBJECT:</b>	<b>LGPS UPDATE</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION</b>	<b>NO</b>

#### 1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members on the current position of the regulatory framework of the Local Government Pension Scheme (LGPS) and provides an update on the collaborative project between Merseyside and Cheshire Pension Funds on implementing the New Scheme from 1 April 2014.
- 1.2 The report also covers the Shadow Scheme Advisory Board report on the call for evidence on the structural reform of the LGPS and Merseyside Pension Fund's response to the consultation on the "Transforming Rehabilitation Programme the Local Government Pension Scheme".

#### 2.0 KEY ISSUES

##### **Reform of the LGPS – LGPS Regulations 2013**

- 2.1 The administration section is continuing to assess the policy intent of a number of the provisions of the 2013 Local Government Pension Scheme Regulations, as various regulatory clauses are drafted loosely and officers have sought clarification from the Local Government Employer's Secretariat and the Technical Group.
- 2.2 The ambiguity within the regulations has delayed the ability to revise all operational processes, literature, forms and guidance notes and has required additional resource to identify the necessary amendments, as issues continue to emerge upon closer scrutiny of the regulations. There are a number of outstanding technical amendments required to the 2013 regulations to deliver the desired intent of the new benefit structure.
- 2.3 At the time of writing, the Transitional Regulations have still not been issued and the associated actuarial guidance from the Secretary of State is also not available therefore presenting a number of obstacles for administrators in preparing delivery of the new scheme.
- 2.4 There is concern within the LGPS arena as to the ability to continue to administer the scheme if the regulations are not laid before 1 April 2014. The provisions link a member's pre 1 April service to the new CARE arrangement and the Public Service Pension Act has removed the ability to award benefits under the 2008 scheme for leavers post 31 March 2014.

- 2.5 If the regulations are not laid before 31 March, it is expected that the DCLG will issue a letter of comfort allowing Funds to anticipate the intended regulatory content.
- 2.6 Team leaders are producing and updating training materials for staff as and when further clarity is received in relation to the expected content of the Transitional Regulations.
- 2.7 There is regular engagement with employers as literature is being cascaded nationally from the Local Government Association. The 'Countdown' employer newsletter (produced as part of the Merseyside / Cheshire collaboration project), is distributed on a monthly basis, highlighting topics and tasks for employers. This is supported with daily contact on an individual basis to assist with specific enquiries.
- 2.8 The delays in the Secretary of State's guidance and regulations has hampered the system providers developing the software. The supplier, like the Fund, has been seeking clarity in order to produce benefit calculations within a reasonable timeframe, ahead of the introduction of the new scheme. The software release for administering a CARE scheme is due to be installed into the pensioner payroll administration system for testing on 6 March.

Officers will be required to undertake user acceptance testing of the benefit calculation programme to establish the system gaps and address any manual workaround and interventions before the live system is installed on 20 March.

#### **Statutory Instrument 2014/44**

- 2.9 The LGPS Miscellaneous Amendment Regulations 2014 came into force on 10 February and amend the current Benefit and Administration Regulations. The key features include provisions to enable Funds to compound small pensions into a lump sum capped at £2,000 without the requirements to check that HMRC limits have not been breached.
- 2.10 The amendments remove the exclusion of eligible jobholders with contracts of less than three months from being automatically enrolled into the scheme on the automatic enrolment date or re-enrolment date under workplace pension reform legislation. This provision ensures that the LGPS satisfies the criteria as a qualifying scheme as defined within the 2008 Pension Act
- 2.11 The existing provision dealing with exiting admission bodies and the requirement to undertake cessation valuations to recover termination debts has been extended to all employers. It is now permissible to enable the administering authority to spread the exit payment over a reasonable period where the exit debt falls to another employer within the Fund

#### **Merseyside and Cheshire West & Chester Collaborative Project**

- 2.12 The Head of Merseyside Pension Fund and Cheshire Pension Fund are receiving monthly project highlight reports on the progress on the joint working arrangement to implement the new benefit structure

- 2.13 There has been unavoidable slippage from the targets set within initial project plan largely due to the delay in issue of the regulations, guidance and IT software. A meeting was arranged on 19 February to refocus the plan on the immediate priorities to enable both Funds to carry out the necessary additional functions that will emerge from 1 April 2014.
- 2.14 The collaboration to date has presented resource benefits in sharing expertise in developing communication material for employers and training material for staff. A combined strategy has been agreed to use employers as a conduit to raise awareness amongst the membership of the scheme changes; particularly the use of the national LGPS 2014 website and the information leaflets available explaining the interactions between the current and new scheme provisions.
- 2.15 A successful joint Practitioner training day took place on 21 February - attended by officers from both Funds with positive feedback from the delegates. The external trainer commented that the attendees were fully engaged and presented the more challenging questions on the subject matter to any previous attendees of that course.
- 2.16 The key focus up to April 2014 is to continue to develop and share staff training material and employer literature as and when further clarity is received. In addition, although both Funds use different Heywood's pension administration products, there is scope to work together to identify system gaps and errors as the benefit software is based on the same calculation design.

### **Shadow Scheme Advisory Board: Report on Call for Evidence**

- 2.17 On 22 January 2014 the Shadow Scheme Advisory Board (SSAB) released its report on the responses to the Government's Call for Evidence on the future structure of the LGPS based on the 130 submissions received to the consultation from across the public and private sectors. Fund authorities were well represented with 70 of the 89 Funds submitting evidence.
- 2.18 The SSAB's report views the Call for Evidence as an important step in the evolution of the LGPS, highlighting that structural reform to the Scheme will have far-reaching and long-lasting consequences.
- 2.19 The most common reform options cited in responses were greater use of ;
- ❖ passive mandates
  - ❖ collective investment vehicles
  - ❖ in-house management
- 2.20 The board has made 7 recommendations for the next steps to be taken with the key recommendations as follows:
- ❖ The Government should consult on options for reform as soon as possible.
  - ❖ The consultation should consider alternative methods for managing deficits and analyse the cost/benefits and barriers to greater passive management, collective investment vehicles and in-house investment strategies.

- ❖ The Board should complete the work on setting an agreed baseline of data and measurements via the Scheme Annual Report process by the end of 2014.

The report can be accessed from the following link:

<http://www.lgpsboard.org/images/CFE/20140115SSABreportFINAL>

## **Transforming Rehabilitation Programme**

- 2.21 Members previously considered the DCLG Consultation on “Transforming Rehabilitation Programme the Local Government Pension Scheme at the last meeting on 20 January 2014 (minute 73 refers). The proposed effective date of 1 April 2014 to transfer staff, assets and liabilities has been deferred until 1 June 2014.
- 2.22 The aim of the consultation is to set out the mechanics of the transfer of existing Probation Trust liabilities from LGPS Funds to the Greater Manchester Pension Fund (GMPF).
- 2.23 The consultation closed on 10 February and MPF submitted its formal response within the prescribed deadline after seeking the approval of the Chair of Pensions Committee.
- 2.24 The response acknowledges that the draft regulations achieve the aim to transfer all residual liabilities for deferred and pensioner members to the National Probation Service and remove the requirement for a termination assessment. However it focuses on a number of areas of ambiguity in respect of the draft GAD guidance concerning the technical aspects which determine the transfer of assets
- 2.25 MPF has raised concern as to the ability to recover appropriate costs incurred by the ceding Fund in relation to advisory and administration costs. The suggested remedial solution was the inclusion of a general provision to permit the recovery of reasonable costs via a reduction in the transfer share or as a recharge from GMPF. This would prevent costs from falling to other employers in the Fund.
- 2.26 The response also raises awareness that the successful transfer of member data and source documents within the prescribed deadlines is reliant on the available resources of the IT provider of its pension administration systems. However as the transfer date has been delayed this will allow Fund’s to enter in further dialogue with their system providers to facilitate a clean transfer of data.
- 2.27 It is the intention for Funds to transfer the pensioner payroll post 1 June 2014 which means all Funds will be required to continue to pay pensioners on a recharge basis. This will have implications for system costs, treasury management with added complexities for payroll and accounting purposes.
- 2.28 A copy of the response is attached as Appendix 1 to the report and the technical consultation paper can be accessed at the following website address:

### **3.0 RELEVANT RISKS**

- 3.1 There is a risk that a full suite of “fit for purpose” Statutory Instruments and Guidance from the Government Actuaries Department (GAD) will not be available in time to effectively administer the new LGPS from April 2014.
- 3.2 The probation proposals will involve the transfer of substantial assets and liabilities to Greater Manchester Pension Fund and it is essential that the basis and terms of that transfer is determined clearly. A substantial number of membership records will also need to pass across.
- 3.3 The Fund has formulated a comprehensive plan, identifying numerous benefit calculations and existing monthly payroll interfaces for testing purposes. However, the short time frame to test the revised benefit calculation software including all historic protections is challenging. There is a limited opportunity to identify the system gaps and devise necessary manual adjustments.

### **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 No other options have been considered.

### **5.0 CONSULTATION**

- 5.1 There has been no consultation undertaken for this report.
- 5.2 It is important that MPF responds to the statutory consultation on reform of the Probation Service which will lead to revised LGPS regulations. It is crucial that all LGPS stakeholders are treated equitably as a result of central government re-engineering of the Rehabilitation Services.

### **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 MPF needs to initiate a formal strategic change programme to overhaul current administration arrangements, resources and communications; in recognition of the fundamental change of introducing a Career Average benefit pension arrangement complete with ongoing protections to the pre-2014 Final Salary benefits.
- 7.2 The joint working arrangement between Merseyside and Cheshire Pension Funds will ultimately provide resource benefits as both Funds work towards delivering a robust operational service and investigate administration efficiencies by sharing expertise and best practice.
- 7.3 The transfer to Greater Manchester Pension Fund will involve assets in excess of £100m and pension records for hundreds of members. This will place further demands on pension staff and resources at a time of considerable change.

7.4 The capability to recover termination debts from all exiting employers will require additional staffing resource to undertake the necessary operational procedures to recover all termination debts. The additional administration costs incurred should be mitigated by the return of monies to the Fund.

## **8.0 LEGAL IMPLICATIONS**

8.1 Depending on the impending revisions to the LGPS emerging from the Governments Call for Evidence on structural reform there may be issues emerging for Wirral Borough Council in its capacity as the administering authority for Merseyside Pension Fund.

## **9.0 EQUALITIES IMPLICATIONS**

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

The reforms to the LGPS have 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**

email: [yvonnecaddock@wirral.gov.uk](mailto:yvonnecaddock@wirral.gov.uk)

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>The LGPS update is a standing item on the Pensions Committee agenda.</b>	