

WIRRAL COUNCIL

PENSION COMMITTEE

17 November 2014

SUBJECT:	LGPS UPDATE
WARD/S AFFECTED:	ALL
REPORT OF:	STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of the Government consultation on the next iteration of the draft Local Government Pension Scheme (Amendment) (Governance) Regulations 2014

2.0 BACKGROUND AND KEY ISSUES

Better Governance and Improved Accountability in the Local Government Pension Scheme

- 2.1 Governance and structural arrangements in the Local Government Pension Scheme are under considerable scrutiny as a result of increasing pressure on public sector finances. The overriding governance framework emanates from the Public Service Pensions Act (the Act) and the Government are leading the review of the Scheme structure.
- 2.2 In compliance with the Act, DCLG on 10 October 2014 published the second issue of the draft regulations relating to 'Governance and Accountability'.
- DCLG has decided to carry out a further consultation on the implementation of a local Pension Board and the national Scheme Advisory Board as revisions have been made to the initial draft, following comments received from the Shadow Scheme Advisory Board and other parties.
- 2.3 In addition to addressing the Governance requirements, the consultation also sets out proposals in relation to how the future service costs of the Scheme will be controlled for employers and taxpayers. The draft regulations also include the provision for the appointment of a 'national Scheme actuary'.
- 2.4 The consultation document can be accessed from the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/362353/LG_Pension_Scheme_-_Consultation.pdf

Governance

The key changes from the earlier draft provisions are as follows:

2.5 Local Pension Boards (LPBs)

- Elected members are now permitted to sit on the LPB with the restriction that any elected member or officer of the Administering Authority who is “responsible for the discharge” of any LGPS function cannot be a member of the Board. This appears to permit elected members from the Administering Authority, not involved in the Fund’s management, and other district councils to constitute the Board on the proviso that there is no conflict of interest.
- Establishment and procedures of the LPB are to be determined locally rather than being created under the provisions of the Local Government Act 1972.
- A new provision has been incorporated to ensure LPBs are not unduly restricted in carrying out their functions.

2.6 Scheme Advisory Board (SAB)

- All members of the SAB and the Chairman are to be appointed by the Secretary of State.
- The Chairman may, with agreement of SAB, appoint a maximum of 3 non-voting advisory members to the SAB.
- A new provision has been incorporated to ensure that the SAB activities are not unduly restricted to carry out its function.

2.7 The Governance and Standards sub-committee of the Shadow Board have been working with Eversheds in developing guidance concerning the establishment and operation of the LPBs. The draft guidance was published on 17 October and provides strategic direction to assist Administering Authorities with the establishment of LPBs, and to ensure consistency across the LGPS whilst retaining the flexibility afforded within the regulations.

2.8 It is the intention that the actual regulations will come into force from 1 January 2015 to allow each LGPS Administering Authority to create a LPB by 1 April 2015 as required by the Act.

2.9 Cost Management

The proposals relating to cost management provide protection to the taxpayer, ensuring that some of the risks associated with pension provision are shared more fairly between employers and scheme members.

The draft regulations establish a requirement for the Secretary of State to appoint a Scheme Actuary to carry out actuarial valuations and apply two different cost control mechanisms. These mechanisms have been designed to assist with the sustainability of the scheme. The two mechanisms are:

Internal cost management process

This sets an overall future service target cost of 19.5%. This cost consists of member contributions set by the statutory schedule designed to yield 6.5% overall together with the Employer Cost Cap of 13% .

This process aims to ensure costs remain within 1% of the future rate with members meeting a third of the cost. The Scheme Advisory Board can make recommendations on changes to the Scheme to achieve these targets.

Treasury employer cost cap process

As a backstop the Treasury process monitors the value of benefits in the new scheme based on the model fund data which requires corrective action to rebalance costs if they move 2% below or above the cost cap.

- 2.10 “Member driven” scheme costs will be included in the control mechanism whereas “financially driven” costs will be omitted. Member costs include improvements in life expectancy and actual pay growth relative to assumed pay growth. Financial costs include the impacts of investment returns on deficits, actual experience relative to assumed growth and changes in financial assumptions.
- 2.11 As well as separating out member and employer costs, the cost cap will only control past and future service costs for the following liabilities;
- Active members including increases in costs for pre-2014 membership;
 - Deferred and pensioner members of the new scheme (including pre-2014 membership);
 - Active members with protected rights from the existing scheme in relation to the 85 year rule and “2008 statutory underpin” afforded to members aged 55 at 1 April 2012.

Past service deficits are outside of the cost management tool but a recommendation has been made to set up a working party to look at potential solutions to the issue of past service deficits.

3.0 RELEVANT RISKS

- 3.1 A major variation to the internal cost management and Treasury process is that local valuations will take account of members electing to take the “50/50” option with the Treasury cost cap ignoring this provision.

There is a risk that this may provide inverse results where 'local-level costs' are reducing but national level costs of the scheme may be increasing. This could result in an adverse increase in employer contributions or a de-valuation of Scheme benefits that would not be informed by the local Fund experience

- 3.2 As the draft regulations are to be published as a framework of the Governance structure, the complementary statutory guidance is a significant document to assist Funds in the creation and ongoing management of Local Pension Boards. There is a risk that if the guidance is not suitably comprehensive that inconsistencies in governance across the LGPS will continue to prevail and may have a detrimental impact on the wider cost of the Scheme.

4.0 **OTHER OPTIONS CONSIDERED**

- 4.1 Not relevant for this report

5.0 **CONSULTATION**

- 5.1 Not relevant for this report

6.0 **OUTSTANDING PREVIOUSLY APPROVED ACTIONS**

- 6.1 None associated with the subject matter.

7.0 **IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 7.1 There are none arising from this report

8.0 **RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

- 8.1 Since 1996, the cost of the Local Government Pension Scheme to employers and taxpayers has increased from £1.3 billion to £5.9 billion in 2010/11. The proposals in this consultation on Scheme Governance and Cost Management are a key element of the Government's reform agenda and will ensure that those who meet the Scheme's costs are fully protected against the rising costs associated with improving longevity.

- 8.2 Any cost associated with the national Scheme Advisory Board will be treated as an administration cost and charged direct to the Fund.

9.0 **LEGAL IMPLICATIONS**

- 9.1 There are none arising from this report

10.0 **EQUALITIES IMPLICATIONS**

- Has the potential impact of your proposal(s) been reviewed with regard to equality?
- No, because Department of Communities and Local Government undertake equality impact assessments with regard to the statutory reform of the LGPS.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATIONS

That members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision making role.

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APPENDICES

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
The LGPS update is a standing item on the Pensions Committee agenda.	

SUBJECT HISTORY (last 3 years)

Council Meeting	Date