

WIRRAL COUNCIL

PENSION COMMITTEE

14 SEPTEMBER 2015

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

1.0 EXECUTIVE SUMMARY

- 1.1 This report informs Members of a number of policies announced in the 2015 Summer Budget and the associated impact on the LGPS and its members.
- 1.2 It also raises awareness that the Government has recently issued consultations on the potential reform of pension tax relief and a cap on public sector staff exit payments.
- 1.3 The report also includes a legal opinion obtained by the Local Government Association in relation to the provision of Council funded pensions to Elected Members.

2.0 BACKGROUND AND KEY ISSUES

2015 Summer Budget

- 2.1 Despite previous fundamental changes already effective from 6 April 2015, introducing greater flexibilities for accessing pension savings from defined contribution arrangements, the Chancellor, in delivering the summer budget on 8 July, committed to deliver further radical reform to the pensions industry.

The main policies with potential impacts for the LGPS are as follows:

LGPS and pooled investments

- 2.2 Following the previous Government consultations on possible reform to the LGPS's investment structures in England and Wales, the government has confirmed its plans to work with administering authorities to pool investments

to significantly cut costs. It intends to invite proposals to meet “common criteria for delivering savings” while maintaining overall investment performance.

- 2.3 A consultation will be published later this year outlining the detailed criteria, including “backstop legislation” that would effectively force authorities to pool investments if they do not present “sufficiently ambitious” proposals.
- 2.4 Joanne Segars, Chief Executive of the National Association of Pension Funds, believes pooled investments will be most effective when they arise out of the “natural collaboration between funds, rather than where funds are forced to invest together”.
- 2.5 Whilst waiting for the consultation to be published, the Fund has met with a number of neighbouring large funds to initiate plans and to discuss mechanisms for reducing fees, greater internal investment and more effective investment structures utilising economies of scale.

The prime objective is to focus on natural collaboration with the aim to reduce deficits which will systematically reduce costs with the added efficiencies of trimming administration costs.

Lifetime Allowance Reduction (LTA) to £1 Million

- 2.6 In last year’s budget, the Chancellor announced that, from April 2016, the LTA would reduce from £1.25 million to £1 million. The chancellor took the opportunity to confirm this change following the General Election. He also confirmed that the LTA would rise in line with CPI from 6 April 2018.
- 2.7 Transitional protection will be available for individuals with pension rights valued over £1 million. The details of how the protections will work have not been published.

Tapered annual allowance

- 2.8 The Government also announced measures to limit the annual allowance of high earners. This change will mean that, for individuals with incomes over £150,000, the annual allowance will be reduced by £1 for every £2 of income earned over £150,000, including the value of the pension accrued over the pension input period.
- 2.9 The annual allowance will be tapered to a maximum reduction of £30,000 (therefore meaning that those with an income of more than £210,000 would

not lose any further annual allowance) and the taper will not apply where the individual has 'threshold income' income of lower than £110,000.

Alignment of pension input periods

2.10 The Government has announced transitional arrangements for the 2015/16 tax year that will mean that all future pension input periods will end in line with the tax year i.e. on 5th April of any given year. The transitional arrangements mean that in the LGPS, in the period from 1st April 2015 to 5th April 2016, there will be two pension input periods:

- One for the period from 1st April 2015 to 8th July 2015, and
- Another for the period from 9th July 2015 to 5th April 2016.

Going forward, the pension input period in the LGPS will be 6th April to 5th April in any given year

2.11 In general, the approach is that an individual can save (without an annual allowance charge) £80,000 in the current tax year, but no more than £40,000 after 8 July. Overall this approach to the transition is generous and may allow greater saving for members than originally anticipated.

Tax relief Green Paper

2.12 The surprise announcement in the Budget was the launch of a consultation on whether there is a case for reforming pension tax relief, with the stated aim of encouraging more people to save.

Whilst the chancellor confirmed that the Government were taking care not to pre-judge the answer, one of the options being considered is that pensions could be taxed like ISAs (payments in from taxed income, investment income exempt from tax and payments out exempt from tax).

2.13 At this stage it contains policy proposals for debate without any commitment to action. The deadline for submitting responses is 30 September 2015 and the Fund's draft response is presented in a separate paper within the committee agenda.

HMT consultation on a proposed exit cap of £95,000

- 2.14 On Friday 31 July 2015, HMT issued a consultation on a Public Sector Exit Payment Cap, which can be accessed from the following link:

<https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap>

The consultation closes on 27 August 2015 and seeks views on a proposal to legislate for a £95,000 cap on the total value of payments made to an individual in relation to his or her exit from public sector employment, including any Pension Fund shortfall.

- 2.15 The Fund has raised awareness amongst its constituent employers of this consultation to provide them with the opportunity to respond directly to the government or to provide any views to the LGA, who have committed to prepare a joint response on behalf of the Local Government sector. A copy of the LGA response is attached as Appendix One to the report.
- 2.16 To create the desired legislation, the government intends to introduce clauses to the Enterprise Bill. If the proposals are implemented, then there would need to be a change to the LGPS Regulations to deal with cases where provision of immediate unreduced pension benefits would breach the £95,000 limit.

Legal opinion on the powers of Councils to pay pensions to Elected Members

- 2.17 The LGPC has recently obtained a legal opinion to clarify whether a council in England can make contributions to an alternative pension provision for its elected members – this follows the changes brought about by the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, which ended the power for councils in England to offer their elected members membership of the LGPS.
- 2.18 It is Eversheds' view that, whilst councils have a general power of competence under Section 1 of the Localism Act 2011, such a power does not permit a council to do anything which it has been specifically prohibited from doing.

The changes brought about by the above LGPS regulations, which were explicit in ending the option for councils in England to provide pension provision to elected members, would mean the general power of competence could not be used to make contributions to an alternative pension provision.

- 2.19 The advice also considers that auto-enrolment legislation would not apply to councillors as they are office holders and would not meet the definition of 'workers' under the Pensions Act 2008.

3.0 RELEVANT RISKS

- 3.1 There is a risk that if the Government introduces a rigid prescription in the management of investments, performance may be impaired. The particular circumstances of each fund are reflected in its asset allocation and investment policy, and pooling of investments may militate against optimal decision-making by funds.

Such compulsion could have a detrimental impact on funds that are delivering good risk adjusted returns.

- 3.2 There is a strong consensus within the industry that constant changes to the tax treatment of pensions will result in further reducing members' confidence in pension saving for retirement.

As such it is imperative that reform of the tax system must fall within the principle of 'simplicity and stability' to keep the membership both engaged and incentivised towards pension saving.

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 The changes to the lifetime and annual allowance will impact on Fund officer time and other resources, as the reduced allowances will impact on a greater number of members.

Although the lifetime allowance only affects a small proportion of the overall scheme membership, the complexity of any inbuilt protections necessitate an in-depth assessment of a member's pension benefits and the provision of a

considerable amount of information to ensure the member can seek appropriate, informed independent tax advice.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

10.1 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 RECOMMENDATION

13.1 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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APPENDIX

LGA response to HMT Consultation on Proposed Exit Cap

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

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

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