

# WIRRAL COUNCIL

## PENSIONS BOARD

13 OCTOBER 2015

<b>SUBJECT:</b>	<b>LGPS UPDATE</b>
<b>WARD/S AFFECTED:</b>	<b>NONE</b>
<b>REPORT OF:</b>	<b>HEAD OF PENSION FUND</b>
<b>KEY DECISION?</b>	<b>NO</b>

### 1.0 EXECUTIVE SUMMARY

- 1.1 The LGPS update report taken to September Pensions Committee is attached as an appendix to this report.
- 1.2 An extract from a recent Scheme Advisory Board meeting is also attached which provides further information on the Government's proposals for LGPS assets to be pooled.

### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The LGPS update is a standing item on the Pensions Committee agenda.

### 3.0 RELEVANT RISKS

- 3.1 There are none arising from this report.

### 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. There are no implications for partner organisations arising from this report.

### 6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 There are no previously approved actions outstanding.

### 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 There are none arising directly from this report.

**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?

(b) No because there is no relevance to equality.

**11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS**

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

**12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

12.1 There are none arising from this report.

**13.0 RECOMMENDATION/S**

13.1 That Board 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.

**REPORT AUTHOR: PETER WALLACH**  
Head of Pension Fund  
telephone (0151) 2421309  
email peterwallach@wirral.gov.uk

**APPENDICES**

None

**BACKGROUND PAPERS/REFERENCE MATERIAL**

**BRIEFING NOTES HISTORY**

Briefing Note	Date

## SUBJECT HISTORY (last 3 years)

Council Meeting	Date

## APPENDIX

### WIRRAL COUNCIL

### PENSION COMMITTEE

**14 SEPTEMBER 2015**

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

#### **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.

### **REPORT AUTHOR**

Yvonne Caddock  
Principal Pension Officer  
Telephone (0151) 242 1333  
Email [yvonnecaddock@wirral.gov.uk](mailto:yvonnecaddock@wirral.gov.uk)

## **APPENDIX**

LGA response to HMT Consultation on Proposed Exit Cap

### **BACKGROUND PAPERS/REFERENCE MATERIAL**

None

### **BRIEFING NOTES HISTORY**

<b>Briefing Note</b>	<b>Date</b>
<b>The LGPS update is a standing item on the Pensions Committee agenda</b>	

# Pooled investments

## Summary

1. This paper sets out the progress since the last Board meeting on the Summer Budget announcement on pooled investments. It includes the key messages which are now becoming clear; a brief note of the meetings held on the subject; and a description of the options for pooling currently under discussion.
2. The paper also includes a number of options regarding the role of the Board in responding to the budget announcement, subsequent consultations and the submission of pooling proposals.

## Key messages

3. Since the budget announcement the following key messages have emerged in discussion with DCLG/HMT officials:
  - a) Proposals for pooling will need to be assessed against criteria to be set by government. The budget statement is potentially misleading in that the consultation on the criteria is happening now not in the autumn.
  - b) Criteria are likely to be around size (£30b has been used as an illustrative example), cost and governance. However there will be no specific savings target in the cost criteria.
  - c) In the autumn the criteria will likely be published alongside a consultation on:
    - new investment regs (prudent person?); and
    - 'back stop' legislation which will apply if any fund is not invested via a vehicle/s which meet the criteria;
  - d) Thoughts about pooling models and options should be underway now with a view to options going to ministers early next year.
  - e) Announcement by government on the way forward likely in Spring 2016.
  - f) Asset allocation is to be left at the local level, but as yet there is no guidance on the exact nature of this allocation (e.g. at the class or sub class level?)

- g) Government has no fixed ideas on the structure of pools (CIV, CIF, joint procurement etc).
- h) Government has no fixed ideas on type of pools (regional, multi asset or single asset) but has expressed a preference for a 'simple' solution.
- i) Government is alive to the transition issues for example illiquid vehicles that cannot be unwound in the short term without significant financial penalties. It is also aware of the time that structures such as the London CIV have taken to set up. However it will probably expect pooled vehicles to be in place in this parliament even if all assets are not yet ready to be moved.
- j) There may be a place for a proportion of the assets to remain under direct local control in certain circumstances. However any such exemptions would probably be for prescribed investments and will be small.

## Meetings

- 4. Since the last Board, the following meetings have been held on this subject organised either through the Board or LGA.
- 5. LGA organised a fund officers/DCLG/HMT meeting on the 17<sup>th</sup> August, followed up on the 7<sup>th</sup> September to encourage thinking around the criteria and possible models. The key outputs of these meetings were that funds:
  - Remain unconvinced that there are any intrinsic benefits of scale especially for in house teams with already low costs.
  - Do not see CIVs as the only method of pooling.
  - Interpret 'asset allocation' in a number of different ways.
  - Can see some benefits to pooling in some asset classes but would want to retain some local discretion.
  - Anticipate reduced fees especially for alternatives, provided pools are well governed.
- 6. The LGA also organised an investment managers DCLG/HMT meeting on 24<sup>th</sup> August to solicit the views of the industry. The key outputs of this meeting were that managers:
  - Were less concerned about the background structure of any pool and more on the need for it to present itself as one client.
  - Would encourage as much decision making as possible be placed within the pools in order to achieve the greatest savings.
  - That pools if structured correctly could provide the 'sticky mandates' necessary to remove unnecessary churn.

7. The SAB held an open invitation session on 21<sup>st</sup> August for all funds. There were over 60 attendees (the vast majority officers) representing 45 funds. A copy of the Q&A from this session is attached as **ANNEX 1**
8. LGA is also assessing the demand for an elected members only session in October

## Potential models

9. Making an assumption that around £30b is the target for multi asset pools with perhaps a smaller number for single asset pools which could be evidenced to operate better at the national level then a number of potential options for pooling emerge.:-
  - Six or seven<sup>1</sup> regional multi asset pools
  - Six or seven national multi asset pools - funds could join pools with similar investment strategies or methodologies (e.g. in-house)
  - Four or five multi asset pools (regional or national) with a single national framework for passive
  - Four or five multi asset pools with a national pool for a single asset class (e.g. infrastructure)
    - Four or five multi asset pools with single national framework for passive and a national pool for a single asset class
    - Three or four multi asset pools with single national framework for passive, a national pool for a single asset class (e.g. infrastructure) and a single pool for fixed liabilities (e.g. a pensioner pool)
10. **ANNEX 2** contains a breakdown of funds against a number of these options in particular regional, passive, single and fixed liability pools.
11. For pools themselves there are a number of different potential structures which are under consideration these being:
  - Joint procurement (e.g. the passive framework)
  - Joint vehicles (e.g. the LPFA/GMPF infrastructure pool)
  - Combined vehicles (e.g. the London CIV and Lancs/LPFA models)
  - Delegated functions (e.g. section 105 committee with lead authority)
12. For the latter two a degree of in-house management is being considered either to replicate what is already there or to build extra capacity.
13. In order for funds to be able to compare a number of these the options when considering how they would fit into proposals Hymans Robertson is currently undertaking an analysis of options with a view to assessing how each performs against the following criteria:

---

<sup>1</sup> Depending on the participation of Welsh funds in cross border pools or one Welsh pool.

- Size - are the multi asset pools sufficient to meet the assumed government criteria of £30b, are the other vehicles optimally sized for their class or method?
- Costs - what are the estimated gross savings for each option?
- Governance - how do each of the models provide political structures and behaviours that encourage best practice outcomes (e.g. long term investment)?
- Local political direction - who is working with who already, where are the obvious fits
- Central political direction - are there other policy drivers which the options best fit with (e.g. combined authorities)?
- Impact on competition - both in the manager market and between pools.
- Legislative requirements - what is needed and what would be the time frame needed?

14. The data from the above analysis will be made available to the Board and in this respect the Board Secretary will liaise with the steering group managing this work.