

**WIRRAL COUNCIL**  
**PENSION COMMITTEE**

**17 JULY 2017**

<b>SUBJECT:</b>	<b>LGPS UPDATE</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>MANAGING DIRECTOR, DELIVERY</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	
<b>KEY DECISION?</b>	<b>NO</b>

**1.0 EXECUTIVE SUMMARY**

1.1 This report updates Members on the current position concerning potential amendments to the Local Government Pension Scheme and overriding pension policy that could affect scheme administration.

A synopsis of the prospective changes to the legislation is attached as Appendix One.

1.2 It also raises awareness of the publication of the 2016 LGPS Annual Report, detailing scheme trends at a national level and a number of issues relating to governance of the Scheme; including difficulties faced by Academies in fulfilling their employer responsibilities as a consequence of non-standardised administrative and funding policies across the LGPS.

**2.0 BACKGROUND AND KEY ISSUES**

**LGPS Annual Report 2016**

2.1 The Scheme Advisory Board has published the fourth Annual Report for the LGPS in England and Wales. It is based on information collated from the Annual Reports and audited Financial Statements of LGPS funds in England and Wales to 31st March 2016.

## 2.2 The key highlights are as follows:

- Total membership of the LGPS grew by 134,000 (2.5%) to 5.3m members in 2016 from 5.2m in 2015 and number of LGPS employers increased by 2,635 (22%) to 14,435.
- Total assets of the LGPS held at £217bn (a change of 0.0%). These assets were invested in pooled investment vehicles (43.6%), public equities (34.6%), fixed interest/index linked (7.5%), property (7.8%), as well as other asset classes (1.0%).
- The Local Authority net return on investment over 2015/2016 was 0.1%. This was reflective of the difficult market conditions during the year and set against the FTSE All Share Total Return of -3.9%.
- Overall the scheme maintained a positive cash-flow position although income was lower than total scheme outgoings by £279m; excluding investment income.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
- Over 1.5m pensioners received income from the scheme over the year.
- Fewer than 91 formal complaints about scheme benefit administration were determined and less than 15% were upheld by the Pensions Ombudsman.

2.3 As at the 31st March 2016, the LGPS liabilities were estimated at £254bn indicating an overall funding level of 85%. During 2016, the Board has been actively developing proposals to further tackle the estimated funding deficit of £37bn (£47bn in 2013) to improve the sustainability of the LGPS and its future funding levels. The next triennial valuation of the LGPS will be as at 31st March 2019.

2.4 During 2014 the Board developed a suite of LGPS pension fund 'health' indicators. These were piloted in 2015 with the aim of rolling them out to coincide with the LGPS 2016 triennial valuation. This will enable the assessment and benchmarking of the overall health of the scheme relative to other large public or private pension schemes, as well as between individual LGPS funds. The results of the pilot form part of the annual report. The full report can be accessed at:

<http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report>

## **Academies**

- 2.5 During 2016 the Scheme Advisory Board commissioned PwC to undertake work to identify issues connected to academy participation in the LGPS and the implications of future increases in academy schools and Multi-Academy Trusts (MATs) - as perceived by a range of stakeholders (e.g. schools, MATs, relevant government departments, relevant unions, academy payroll service providers and pension funds). The issues relate to:
- Administration
  - Actuarial and funding
  - Investment and legal (including member representation)
- 2.6 PwC's report "**Options for Academies in the LGPS**" has been published and will enable the Scheme Advisory Board to engage with key stakeholders including pension funds, actuarial firms and academy trusts as appropriate on the issues raised by those interviewed by PwC.
- 2.7 Following discussion with Ministers (to be re-affirmed with any new ministers) it has been decided to look for solutions to academy issues within the LGPS structure.

Solutions are targeting the following objectives:

- Greater consistency in contributions and a lower administrative burden on academy staff (Department for Education)
  - Ensure that no debts are transferred from the academy sector (Department for Education) to other areas of the LGPS (DCLG / SAB)
- 2.8 The Board will continue to gather relevant evidence and then develop specific proposals for change before submitting its recommendations to Ministers for their consideration. The full report can be accessed here:

[http://www.lgpsboard.org/images/PDF/LGPS\\_Advisory\\_Board\\_Options\\_for\\_Academies\\_20170525.pdf](http://www.lgpsboard.org/images/PDF/LGPS_Advisory_Board_Options_for_Academies_20170525.pdf)

## **Survey of New Governance Arrangements**

- 2.9 The Scheme Advisory Board recently requested that Chairs of Pensions Committees and Local Pension Boards participate in a survey to assess the effectiveness and operational efficiency of the new governance arrangements with particular emphasis on the role and function of the local pension board.

The survey has now also been extended to scheme stakeholders, in particular the main local government trade unions.

The web based survey can be found here: <http://lgpsboard.org/survey.php>

## **The Public Service Governance and Administration Survey**

- 2.10 The Pensions Regulator undertakes an annual Public Service Governance Survey. The regulator expects all public service schemes to participate in the research to help understand what schemes are doing to improve their standards of governance and administration - so it can focus on the areas which need more support and education.
- 2.11 The results of the 2016 Governance and Administration survey were recently published in their 2017 report. The survey generally shows an ongoing improvement in governance but the most commonly identified barrier to improvements in governance and administration for the LGPS was resource constraints.
- 2.12 Top priorities for this year are scheme governance, record keeping, internal controls and member communication. The Regulator has confirmed that tolerance for scheme shortcomings in these areas is reducing and that they are more likely to use their enforcement powers for recalcitrant scheme managers.

The full report can be accessed at:

<http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary-2017.pdf>

### **3.0 RELEVANT RISKS**

- 3.1 Failure to allocate necessary resource to support employers in addressing data quality deficiencies, would increase the risk on non-compliance with Pension Regulators expected standards of administration leading to censure and reputational damage.

### **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 None associated with the subject matter.

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

8.1 The proposed reform of exit payments (referenced in Appendix One) are intended to reduce compensation awards, limiting costs for employers and taxpayers, resulting from the early release of pension benefits on the grounds of redundancy or voluntary severance.

## **9.0 LEGAL IMPLICATIONS**

9.1 There are none arising from this report

## **10 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**

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## **APPENDICES**

Appendix 1- LGPS Update Synopsis

## **BACKGROUND PAPERS/REFERENCE MATERIAL**

## **BRIEFING NOTES HISTORY**

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