

WIRRAL COUNCIL

PENSION COMMITTEE

16 JULY 2019

SUBJECT:	LGPS UPDATE
WARD/S AFFECTED:	NONE
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report covers two government consultations, 'Restricting Exit Payments in the Public Sector' published by HM Treasury, and 'Changes to the Local Valuation Cycle and Management of Employer Risk' by the Ministry of Housing Communities & Local Government (MHCLG).
- 1.2 The HM Treasury consultation was issued on 10 April 2019 with a closing date of 3 July and the MHCLG consultation was issued on 8 May 2019, closing on 31 July.
- 1.3 The Fund response to the HM Treasury consultation was shared with the Chairs of Pension Committee and Pension Board for comment and approval prior to submission - attached as Appendix A for noting.
- 1.4 A draft response to the MHCLG consultation is attached as Appendix B for Member consideration, comment and approval.
- 1.5 The report also updates Members of recent developments on the Scheme Advisory Board review of governance models for the LGPS.

2.0 BACKGROUND AND KEY ISSUES

Restricting Exit Payments in the Public Sector (95k Cap) consultation

- 2.1 Members are aware, as reported at the Committee meeting dated 15 November 2016 (minute 128 refers), of the Government's intent to cap the cost of early retirement packages within the public sector at a total cost of £95,000 per employee.

- 2.2 The recent HM Treasury consultation on restricting exit payments defines the specific payments to be measured against the cap and those payments which are exempt.
- 2.3 Payments made to a pension scheme to fund the cost of early release of benefits are included as pay elements assessed against the cap. As the LGPS is a defined benefit scheme the interactions between pay and length of service are the key determinant as to whether a member will be impacted by the cap.
- 2.4 To demonstrate the effect of the cap on members pension benefits the Local Government Association have undertaken high level analysis of the circumstances in which the cap will be applied.

For example a member with moderate earnings of £23,500 per annum with 35 years' service and a severance payment of £18,306 will be captured by the cap, potentially leading to personal financial hardship during retirement.

- 2.5 The draft regulations highlight which employers are in scope but contain a number of technical inconsistencies and do not provide details on the impact on the LGPS.
- 2.6 It is anticipated that MHCLG will issue a separate consultation to cover a number of issues including the implementation of an appropriate costing methodology along with standardised factors to calculate the strain payments associated with the early release of pension benefits.
- 2.7 It is unclear how redundancy cases will operate in the LGPS and how the cost of paying pensions early will be determined across the LGPS if the regulations are not amended before the HMT Regulations come into force.
- 2.8 Introducing a cap on exit payments will have significant implications for employers, administering authorities and LGPS members.

The Full consultation can be accessed from the following link:

<https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector>

Consultation on changes to the local valuation cycle and the management of employer risk policy

- 2.9 MHCLG have opened a twelve week policy consultation called 'Changes to the local valuation cycle and the management of employer risk policy'. The consultation contains proposals to amend the LGPS regulations 2013 in the following areas;

- Amendments to the local fund valuation from a triennial to a quadrennial cycle to align with the scheme revaluation:

- A number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- Proposals to introduce flexibility for exit payments
- Proposals for further policy changes to exit credits
- Proposals to remove the requirement for further education corporations, sixth form college corporations and higher education corporations to offer LGPS membership to new employees.

2.10 The Full consultation can be accessed from the following link:

<https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk?=7>

Good Governance Review

- 2.11 In January 2019, the Scheme Advisory Board (SAB) commissioned Hymans Robertson to facilitate a review of governance models for the LGPS. The purpose is to consider measures to raise standards, manage conflicts effectively and ensure the Scheme remains appropriately resourced to deliver its statutory functions.
- 2.12 Hymans issued an online fact find questionnaire to key stakeholders namely; Directors of Pensions, Section 151 officers, chairs of the pension committee and local pension board, union representatives and LGPS advisors. The findings of the exercise will form the basis of the report to be presented to SAB in July.

Proposed Models

- 2.13 The models proposed are summarised below and those in scope all maintain the link to local democratic accountability.

Option 1 - Improved Practice

Introduce guidance or amendments to LGPS Regulations 2013, to enhance the existing arrangements by increasing the independence of the management of the fund.

Option 2 - Greater ring fencing of the LGPS within existing structures

Greater separation of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 - Joint Committee (JC)

Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - Combined Authority (CA)

Establish a CA, a local authority in its own right and a separate legal entity, which exists for the sole purpose of administering an LGPS fund.

- 2.14 It is clear the same model will not suit the different characteristics and local circumstances of each fund across the LGPS.
- 2.15 The findings of the exercise will form the basis of the report to be delivered to SAB in July, who following their consideration will publish recommendations for further comment prior to presentation at MHCLG.

3.0 Relevant Risks

- 3.1 The transition from local triennial to quadrennial valuation cycles increases the risk of funding and investment strategies becoming misaligned due to significant changes in market conditions during the inter valuation period, leading to increased costs for both employers and taxpayers.
- 3.2 The proposal to introduce deferred employer status within the LGPS will improve governance as administering authorities can utilise as a tool to manage employer risk and to mitigate the exposure of irrecoverable debt falling across the remaining employers in the fund.

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 £95,000 cap will include the value of any early retirement strain payments, and it is envisaged that the ability to take an unreduced early retirement pension will be severely restricted for a number of members.
- 8.2 As such the new regulations will reduce pension costs for affected employers given that the total exit payments made to employees will now be capped.
- 8.3 Separate administrative processes will need to be implemented by the Fund for those employers covered by the cap, and for those not covered. The Fund will need to establish and keep a clear record of which employers fall into each category
- 8.4 The proposal to remove the requirement for further education corporations, sixth form college corporations and higher education corporations to offer membership of the LGPS to new entrants could lead to a reduction in the active membership base with an adverse impact on cash flow and the pace of scheme maturity.

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 MHCLG 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 Committee Members:

- a) note the response sent to HM Treasury regarding the consultation on 'Restricting Exit Payments in the Public Sector', and

b) approve the Fund's draft response to the MHCLG consultation on 'Changes to the Local Valuation Cycle and Management of Employer Risk'

14.0 Reason/s for Recommendations

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
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APPENDIX 2&3

Fund response to HM Treasury consultation on 'Restricting Exit Payments in the Public Sector'

APPENDIX 1

Fund draft response to MHCLG consultation on 'Changes to the Local Valuation Cycle and Management of Employer Risk'