

Pension Fund Committee

Date: 28 March 2019

Report by: Head of Pensions

Subject:	Governance and Compliance Report
Purpose of the Report	To provide the Pension Fund Committee with: 1) Information on potential, new or amending legislation affecting the LGPS; 2) Information on other pensions legislation; 3) Activities of the LGPS Scheme Advisory Board and the Pensions Regulator; 4) Information on issues concerning the governance of the Local Government Pension Scheme (LGPS) on a national and local basis; and 5) Skills and knowledge opportunities.
Recommendations	That the Pension Fund Committee notes the content of the report.
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1. Background

- 1.1 This is a standing report that identifies issues concerning the governance of the Local Government Pension Scheme (LGPS) and also potential, new, amending and overriding legislation that will have an impact on how the Scheme is managed and on members' benefits.

2. Amending legislation

- 2.1 The LGPS (Miscellaneous Amendment) Regulations 2018 were laid before parliament on 18 December 2018 and came into force on 10 January 2019 with the exception of:
- Regulation 4 – a technical amendment to deliver the policy intent for deferred members of the 1995 scheme to be able to access their benefits without their employer's consent from age 55 has been back dated to 17 April 2018.
 - Regulation 5 – provides for the back dating of a survivor's pension to 5 December 2005 in respect of a surviving civil partner of a scheme member and to 13 March 2014 in respect of a surviving spouse of a same sex marriage with a member.

2.2 Scheme members will be informed of these changes in line with disclosure requirements.

3. Scheme Advisory Board (SAB)

3.1 Cost Management Process

3.1.1 Cost management for the LGPS in England and Wales is taking place in the context of a public service pension scheme wide cost cap review under Her Majesty's (HM) Treasury directions. In other schemes indicative outcomes have seen breaches of the cost cap floor requiring benefit improvements in excess of 3% of payroll. The Northern Ireland LGPS is the closest comparable scheme undergoing the cost cap process this year and is currently consulting on a benefit improvement package costing 3.2% of payroll.

3.1.2 The LGPS in England and Wales has a separate cost management process which is completed prior to the finalisation of the HM Treasury cost cap calculations.

3.1.3 At the Scheme Advisory Board meeting on 10 October 2018 it was noted that subject to the agreement by Government to return the scheme design to that agreed in 2013 by employers and scheme members in relation of the annual revaluation of CARE benefits, the outcome of the Board's cost management process was a total scheme future service cost of 19%. As the target for the process is 19.5% the Board agreed to consider recommendations to return the total cost back to the target.

3.1.4 It was also agreed that a sub-group be established to consider a package of benefit improvements to sufficient to return the cost back to 19.5% and such further changes to employee contributions within that total cost necessary to obtain support of both employer and employee representatives of the Board.

3.1.5 The Board agreed the following proposals for changes to benefits:

- Removal of the third tier of ill health costed on the assumption that tier 2 would be awarded in these cases
- Death in service minimum payment of £75,000
- Enhanced early retirement factors equal to all members who are active in the scheme at 1 April 2019 in all sections of the scheme and targeted enhancements to final salary section benefits
- Revision of revaluation of CARE pension accrued to the start of the scheme year as opposed to the end.

3.1.6 The Board's proposals on employee contributions were as follows:

- A new 2.75% band at pay of £0 to £12,850
- The second band of 4.4% at pay between £12,851 to £22,500
- Expansion of the top band from £45,200 to £53,500
- A move away on contribution rates being set in regulation to being guidance.

3.1.7 The following proposals were submitted to the Secretary of State on 16 November and discussions have since taken place with the Minister and a consultation on these changes is expected imminently for regulations to take effect from 1 April 2019.

- 3.1.8 On 30 January 2019, a Ministerial Statement was released which announces a pause in this cost cap process for public service pension schemes pending the outcome of the application to appeal the McCloud case to the Supreme Court. The judgement can be found at the following link:
<https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf>
- 3.1.9 It is understood that the LGPS could, if McCloud is upheld, be required to make changes to the underpin and that such changes would need to be taken into account in a revised Scheme Advisory Board cost cap result.
- 3.1.10 The statement gives no timescales for the outcome of this case but it could be late 2019 or early 2020 before the outcome is known.
- 3.1.11 The Scheme Advisory Board will now consider whether it should withdraw the benefit change recommendations made to MHCLG as a result of its own cost cap process. In taking a view, the Scheme Advisory Board will be aware that delaying benefit changes to possibly 2020 while backdating them to April 2019 would constitute a significant administrative burden on administering authorities and employers. Although the Scheme Advisory Board will immediately start considering next steps it should be stated that even if the Scheme Advisory Board wishes to press on any changes to benefits can only be made with the agreement of Government.
- 3.1.12 The administering authority may wish to continue to prepare for the Scheme Advisory Board recommended cost cap benefit changes (as set out in our email of the 21 December) but not anticipate their implementation unless and until such time as MHCLG formally consult on them.
- 3.1.13 The Pension Fund Committee will be kept up to date with developments in this area.

3.2 Data quality – letter from the Scheme Advisory Board to the Pensions Regulator

- 3.2.1 The Chairman of the Local Government Pension Scheme Advisory Board in England and Wales wrote to the Pensions Regulator to highlight the importance of working alongside stakeholders to improve the quality of scheme data and record keeping. The Board's intention is to work in partnership with the Pensions Regulator to deliver improvements in scheme governance and administration.
- 3.2.2 A full copy of the letter can be found at the following link; -
http://lgpsboard.org/images/Other/Letter_sent_to_tPR_26112018.pdf

3.3 Good governance in the LGPS

- 3.3.1 An item on the Scheme Advisory Board's work plan for 2018/19 concerns the possible separation of pension funds from their host authorities (i.e. the County Council) with a view to potentially making recommendations to the secretary of state.
- 3.3.2 In 2015, the Scheme Advisory Board commissioned KPMG to examine the issues and challenges of separating the pension functions of LGPS administering authorities from their host authorities. KPMG's findings can be found at the following link:
http://lgpsboard.org/images/PDF/KPMG_LGPS_SAB_Final_Report.pdf

- 3.3.3 Other priorities at the time halted further work on separation but now the Scheme Advisory Board has agreed to put it back on this current year's work plan a further project to is now being undertaken to see how KPMG's recommendations could be made to work.
- 3.3.4 In August 2018 the Scheme Advisory Board invited bidders to tender for the next stage of the project by 21 September. Hymans Robertson were the successful bidder and engagement with administering authorities is expected shortly.

4. The Pensions Regulator (TPR)

4.1 Public Service Pension Schemes Annual Governance and Administration Survey

- 4.1.1 The annual governance and administration survey was issued to scheme managers of all public service pension schemes in the week commencing 5 November. The survey was web based, voluntary and could be submitted anonymously by the deadline of 30 November.
- 4.1.2 The response in respect of the Cambridgeshire Pension Fund was submitted prior to the deadline and was not submitted anonymously. The survey results are expected to be published in early 2019 and a full report will be submitted to the Pension Fund Committee and Pension Fund Board detailing the findings.

4.2 New Pensions Regulator Chief Executive

- 4.2.1 On 18 December, the Pensions Regulator announced they have appointed Charles Counsell as their new Chief Executive. Charles Counsell is currently Chief Executive of the Money Advice Service and will join the Pensions Regulator at the start of April following the departure of Lesley Titcomb at the conclusion of her term as Chief Executive as the end of February.

4.3 New Pensions Regulator Website

- 4.3.1 On 12 November, the Pensions Regulator launched a new website to give more than three million yearly visitors a clearer and simpler experience. The new site is a key part of the Pensions Regulator's redesigned branding which highlights how the organisation is changing its approach to become clearer, quicker and tougher.
- 4.3.2 The website can be found at the following link:
<https://www.thepensionsregulator.gov.uk/en>

5. Consultations

5.1 Draft MHCLG guidance on LGPS asset pooling

- 5.1.1 On 3 January 2019 the MHCLG published its draft statutory guidance on asset pooling. The consultation is open for 12 weeks (closing on 28 March). It is deemed an informal consultation which is addressed to interested parties only.
- 5.1.2 Features of the consultation document include:
- Guidance will have statutory force
 - The definition of "pooled assets" excludes passive investment in life policies held directly by administering authorities
 - Pool members *must* appoint a pool company regulated by the Financial Conduct Authority

- Pool members *should* consider moving from active to passive investment where active management has not generated better net of fees performance over a reasonable period
- Pool members *should* take account of benefits across the pool and the scheme as a whole and should not seek simply to minimise costs in the short term
- Inter-authority payments *may* be used to share transition costs equitably between pool members
- There are tighter definitions of the conditions to justify keeping assets outside of the pool (existing “retained” assets and new investments)
- From 2020 it is expected that pool members “*should* make new investments outside the pool only in very limited circumstances”
- Pool members may invest in vehicles provided by other pools where collaboration between pools or specialisation can deliver improved net returns
- There is no specific target for infrastructure
- All residential property is included in the definition of infrastructure
- Extensive reporting requirements on costs and performance relative to relevant indices kick in with effect from the 2018-19 report.

5.1.3 Officers will draft a response to the consultation in conjunction with the Chairmen of both the Pension Fund Committee and Local Pension Board. The final response will be included within the next Governance and Compliance report.

5.2 Fair Deal – strengthening pension protection

5.2.1 On 10 January 2019, the Government published a further consultation on the assimilation of its new Fair Deal policy into the LGPS. The consultation will run to 4 April 2019 and can be found at the following link:

<https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection>

5.2.2 Features of the consultation document include:

- Defining those scheme employers that would be directly impacted by the proposed changes
- Confirming the removal of the ability for contractors to offer the alternative of a broadly comparable scheme as a means of securing pension protection
- Confirming the transitional arrangements protecting those individuals whose pension protection was previously gained via early provisions;
- The proposed introduction of “deemed employer” status as an alternative option to “admitted body” status; and
- Introducing guidance to assist employers in understanding their responsibilities.

5.2.3 In addition to changes linked to new Fair Deal into the LGPS, the Government has also taken the opportunity as part of this consultation to consider changes aimed at smoothing arrangements where scheme employers are involved in mergers or takeovers (e.g. academies).

5.2.4 Officers will draft a response to the consultation in conjunction with the Chairmen of both the Local Pension Board and Pension Fund Committee following receipt of the views of the Fund’s key advisors. The final response will be included within the next Governance and Compliance report.

6. Skills and knowledge opportunities – training events

6.1 Section 248A of The Pensions Act 2004 as incorporated within The Pensions Regulator’s

Code of Practice (Governance and administration of public service pension schemes) requires all members of the Pensions Committee to maintain the necessary skills and knowledge to undertake their role effectively.

- 6.2 In order to facilitate the acquisition of skills and knowledge for members of the Pension Committee, appendix 1 lists the main events that are deemed useful and appropriate.
- 6.3 Requests to attend events will be facilitated by the Governance Team. It may be necessary to restrict numbers of attendees on some courses through reasons of cost.

7. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. <i>Objective 1</i>
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. <i>Objective 2</i>
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. <i>Objective 3</i>
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. <i>Objective 5</i>

8. Risk Management

- 8.1 The Pension Fund Committee are required to have the appropriate skills and knowledge to effectively carry out their duties. This report ensures that the Pension Fund Committee is up to date with:
- New or amending legislation affecting the LGPS;
 - Relevant activities of the LGPS Scheme Advisory Board and the TPR that concern the governance of the (LGPS) on a national and local basis; and
 - Skills and knowledge opportunities.
- 8.2 The risks associated with Pension Fund Committee not having the required level of knowledge and understanding have been captured in the Fund's risk register as detailed below.

Risk register	Risk mitigated	Residual risk
Governance (risk 1)	Failure to administer the scheme in line with regulations and policies.	Amber
Governance (risk 2)	Those charged with governance of the Fund and Scheme are unable to fulfil their responsibilities effectively.	Amber
Governance (risk 4)	Policies and Strategies not being in place and up to date.	Green
Governance (risk 12)	Changes to the LGPS and lack of expertise in the new/revised area.	Green
Governance (risk 18)	Failure to provide adequate information to the Pension Committee/Pension Board.	Green

- 8.3 The full risk register can be found on the LGSS Pensions website at the following link:
<http://pensions.northamptonshire.gov.uk/governance/key-documents/cambridgeshire/>

9. Finance & Resources Implications

- 9.1 Not applicable.

10. Communication Implications

Training	All staff involved in the administration of the LGPS are aware of the new legislation and the impact on the calculation and payment of benefits from the scheme.
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11. Legal Implications

- 11.1 There are no legal implications connected to the contents of this report.

12. Consultation with Key Advisers

- 12.1 There has been no requirement to consult with advisers over the content of this report.

13. Alternative Options Considered

- 13.1 There are no alternative options to be considered.

14. Background Papers

- 14.1 None.

15. Appendices

- 15.1 Appendix 1 List of training events/conferences.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here.	Not applicable
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Head of Pensions?	Mark Whitby – 25 February 2019
Has this report been cleared by Section 151 Officer?	Sarah Heywood – 15 March 2019
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers – 13 March 2019
Has this report been cleared by Monitoring Officer?	Fiona McMillan – 12 March 2019

Appendix 1 – Internal/External training and events 2019-2020

Date	Event	Training Credits	Target Audience	Host/Website
17-18 January 2019	LGPS Governance Conference	4	Officers, Committee/Board members	Local Government Association https://www.local.gov.uk
13 February 2019	LGSS Pensions Information Day	2	Officers, Committee/ Board Members	In house ACCESS – appointment of operator
27 February 2019 (morning)	CIPFA Spring Seminar	2	Officers only	https://www.cipfa.org/training/l/lgps-spring-officers-spring-seminar-20190227-london Latest updates on the LGPS and regulations.
27 February 2019 (afternoon)	CIPFA Spring Seminar	2	Local Pension Board members only	https://www.cipfa.org/training/l/lgps-members-spring-seminar-20190227-london Latest updates on the LGPS and regulations.
28 February – 01 March 2019	LGC Investment Seminar	4	Officers, Committee/ Board Members	https://investmentseminar.lgcplus.com Keeping the LGPS affordable and accessible through austerity and uncertain times.
13 - 15 May 2019	PLSA Local Authority Conference	4	Officers, Committee/ Board Members	https://www.plsa.co.uk/Events-Local-Authority-Conference
26 June 2019	CIPFA & Barnett Waddingham Local Pension Boards' Annual Full Day Event	2	Local Pension Board members only	
2 – 4 July 2019	LAPF Strategic Investment Forum	4	Chairman of Pension Committee / Officers	https://www.dgpublishing.com/lapf-strategic-investment-forum/
3 - 4 July 2019	Heywood Class Group AGM	4	Officers	
10 – 12 July 2019	LGC Pension Fund Symposium	4	Officers	https://pensionfund.lgcplus.com

TBC – Last week Sept 2019	Introduction to the LGPS	2	Officers, Committee/ Board Members	http://www.cipfa.org/training/i/introduction-to-the-lgps-201809266 Aimed at new or inexperienced officers and elected members this course, based on the CIPFA knowledge and skills framework.
1 March 2019	Schroders Trustee Training (Part 1)	2	Officers, Committee/ Board Members	https://www.schroders.com/en/uk/pensions/events/training/schroders-trustee-training-2019-london-part-1-spring/ The programme is designed to cover a wide range of different asset classes and investment strategies, as well as how to manage some of the risks associated with them
22 March 2019	Schroders Trustee Training (Part 2)	2	Officers, Committee/ Board Members	https://www.schroders.com/en/uk/pensions/events/training/schroders-trustee-training-2019-london-part-2-spring/ The programme is designed to cover a wide range of different asset classes and investment strategies, as well as how to manage some of the risks associated with them
16 - 18 October 2019	PLSA Annual Conference	4	Officers, Committee/ Board Members	https://www.plsa.co.uk/Annual-conference-and-exhibition
19 – 20 November 2019	Pension Managers’ Conference	4	Officers	http://www.swcouncils.gov.uk/nqcontent.cfm?a_id=339&tt=swra&eventStatus=list&eventAction=view&eventId=1271
4 – 6 December	LAPFF Annual Conference	4	Officers, Committee/ Board Members	http://www.lapfforum.org/events/lapff-conference