

**CAMBRIDGESHIRE  
PENSION FUND**



**Pensions Committee**

**Date:** 22 October 2015

**Report by:** Deputy Head of Pensions

<b>Subject:</b>	<b>Governance and Legislation Report</b>
<b>Purpose of the Report</b>	<b>To provide the Pension Committee with:</b> <b>1) Information on issues concerning the governance of the Local Government Pension Scheme (LGPS) on a national and local basis;</b> <b>2) Information on new or amending legislation affecting the LGPS;</b> <b>3) Details of relevant consultations affecting the LGPS; and</b> <b>4) Details of forthcoming training events.</b>
<b>Recommendations</b>	<b>That the Pensions Committee notes the content of the report.</b>
<b>Enquiries to:</b>	Name: Jo Walton – Governance and Regulations Manager, LGSS Pensions Service Tel: 01604 367030 E-mail: <a href="mailto:jwalton@northamptonshire.gov.uk">jwalton@northamptonshire.gov.uk</a>

**1 Background**

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

**2. Governance – Activity of the LGPS Scheme Advisory Board**

**2.1 Separation**

- 2.1.1 On 16 June 2015, the Shadow Advisory Board released a proposal for assistance in developing options for separation of the host authority (administering authority) from the Pension Fund as part of its 2015-16 work plan.
- 2.1.2 KPMG was successful in tendering for this work and was asked to present their findings to the Board on 21 September 2015.
- 2.1.3 Full details of the initial 3 options for separation can be found in **appendix 1**.

## **2.2 Benchmarking**

- 2.2.1 The Scheme Advisory Board is undertaking, with support from DCLG, a national exercise to benchmark the performance of all LGPS Funds in England and Wales during late 2015 prior to a mandatory exercise linked to the 2016 triennial valuations.
- 2.2.2 During 2014, a suite of 18 LGPS self-assessment key indicators (4 core and 14 supplementary, of which 10 are governance and 8 are performance related) were developed by a SAB Scheme Reporting Working Group (comprising LGPS funds, NAPF, CIPFA, and the ACA). These indicators are the result of considerable input from a working party of administering authorities and other LGPS experts. While not necessarily perfect, they are viewed as a step in the right direction, and will evolve over time in light of feedback and their usage.
- 2.2.3 Collectively they are designed to help the Scheme Advisory Board to nationally assess the relative health of the funds and scheme as a whole. More importantly, the indicators are intended to be a valuable benchmarking tool for administering authorities, and the newly formed Local Pension Boards, to help with the governance process and continuous improvement.
- 2.2.4 They were piloted in May 2015 using 2014 data on a voluntary basis by 13 other LGPS Funds of different sizes, and in light of the feedback received by the Scheme Advisory Board, the KPIs have been clarified to improve their efficacy.
- 2.2.5 The Scheme Advisory Board have now asked all LGPS funds to provide data on the KPIs using 2014-15 information (and 31 March 2013 for actuarial data unless more recent data is available). By taking part in this exercise it is an opportunity for the Fund to:
- Assess the Fund against the examples of best practice for high performing Funds and the examples of concern for each KPI;
  - Inform the Scheme Advisory Board how much effort/time/cost undertaking the exercise consumed compared with that reported by the pilot Funds; and
  - Provide general feedback on the KPIs and the examples of best practice and the examples of concern, and to offer suggestions for their further clarification, refinement, and improvement.
- 2.2.6 The Scheme Advisory Board secretariat will consider the outcome from the 2015 exercise during December 2015. The Scheme Advisory Board will make recommendations to DCLG about the KPIs as part of the 31 March 2016 triennial valuation process. They will then be issued in April 2016 and from December 2016 used as tool to assess and support Funds accordingly.

## **3. Governance - The Pensions Regulator**

### **3.1 Compliance and Enforcement Policy for public service pensions**

- 3.1.1 In June 2015 the Pensions Regulator published its public service pension schemes Compliance and Enforcement Policy which can be found at the following link;

<http://www.thepensionsregulator.gov.uk/doc-library/strategy-and-policy.aspx#s18493>

- 3.1.2 The policy sets out the Pensions Regulator's approach to compliance and enforcement in relation to public service pension schemes. It describes the Pensions Regulator's expectations for compliance with relevant legal requirements and how they will proceed in cases of non-compliance, including when they may use their enforcement powers.
- 3.1.3 The production of the Policy on Reporting Breaches of the Law to the Pensions Regulator demonstrates the Fund's understandings of its legal duties and to implement effective controls to prevent any non-compliance with the law.

### **3.2 Public service pension scheme survey**

- 3.2.1 LGSS Pensions Officers have recently completed a Pensions Regulator survey on the governance and administration standards in public service pension schemes.
- 3.2.2 The results of the survey will play a key part in the Pensions Regulator's understanding of how schemes are meeting the legal requirements and the standard to which public service pension schemes are being run. The results of the survey will help the Pensions Regulator focus their efforts on areas where they may most usefully provide more guidance, education and support to raise standards.
- 3.2.3 The Pensions Regulator will produce a report on the data gathered in the autumn to enable the Fund to identify its position amongst its peers. Full details of the report will be presented to the board at the first available opportunity. The Pensions Regulator will also use the information gathered to risk assess schemes for intervention as set out in the Pensions Regulator's Compliance and Enforcement Policy.

## **4. Governance – Activities of the Pension Fund Board (Local Pension Board)**

- 4.1 The first meeting of the Cambridgeshire Pension Fund Board took place on 16 July 2015. At this meeting Councillor Mac McGuire (employer representative) was elected as Chairman and Barry O'Sullivan (employee representative) as Vice-Chairman.
- 4.1.2 The second meeting of the Cambridgeshire Pension Fund Board was held on 21 October 2015 during which the following items were discussed:
  - Reporting Breaches of the Law to the Pensions Regulator Policy (to note report);
  - Knowledge Management Policy for Pension Fund Board Members (to approve as part of the Board's terms of reference);
  - Governance and Legislation, Business Plan Update, Employers Admissions and Cessations Report (to note reports submitted to the Pensions Committee in June 2015);
  - Annual General Meeting (to note the investment performance reports presented at the Annual General Meeting in July 2015).
- 4.1.3 The next meeting of the Pension Fund Board is on 20 January 2015.

- 4.2 On 1 September a joint training day for the Pension Fund Board and Pension Committee of both Cambridgeshire Pension Fund and Northamptonshire Pension Fund was held to discuss the role of the Pension Fund Board and how it would interact with the Pensions Committee. This was a well attended event by both officers and members of the Pensions Committee and Pension Fund Board from both Funds.
- 4.2.1 Hymans Robertson delivered the session and in addition to the content detailed in 4.1 covered important topics such as the responsibilities to report breaches of the law to the Pensions Regulator if they are deemed to be of material interest to the Pensions Regulator.
- 4.2.2 Going forward and where relevant, joint training will be delivered across Funds, Committees and Boards.

## 5. Legislation

- 5.1 The following legislation has been issued that may have an impact on LGPS member benefits:

Legislation	Outline/Relevance to the LGPS
2015/1452 The Occupational Pension Schemes (Schemes that were Contracted-out) Regulations 2015 <a href="http://www.legislation.gov.uk/uksi/2015/1452/contents/made">http://www.legislation.gov.uk/uksi/2015/1452/contents/made</a>	Revoke and replace most of the Occupational Pension Schemes (Contracting-out) Regulations 1996 as a consequence of the Pensions Act 2014 which created a new state pension for those reaching pensionable age from 6 April 2016.
2015/1475 Pensions Act 2014 (Commencement No 5) Order 2015 <a href="http://www.legislation.gov.uk/uksi/2015/1475/contents/made">http://www.legislation.gov.uk/uksi/2015/1475/contents/made</a>	Brings into force provisions in the Act relating to the cessation of contracting-out for salary related pension schemes and the introduction of the new State Pension provisions
2015/1502 The Pensions Act 2014 (Savings) Order 2015 <a href="http://www.legislation.gov.uk/uksi/2015/1502/contents/made">http://www.legislation.gov.uk/uksi/2015/1502/contents/made</a>	Saves certain provisions of the Pension Schemes Act 1993 to enable former contracted out salary related pension schemes, such as the LGPS, to carry out necessary activity relating to contracted out employment which occurred before 6 April 2016 ("the second abolition date").
2015/1529 The State Pension Credit (Amendment) Regulations 2015 <a href="http://www.legislation.gov.uk/uksi/2015/1529/contents/made">http://www.legislation.gov.uk/uksi/2015/1529/contents/made</a>	Makes changes restricting the provision and amount of the state benefit 'Pension Credit' from 6 April 2016 as a result of the introduction of the new State Pension.
2015/1455 The Registered Pension Schemes (Provision of Information) (Amendment No 2) Regulations 2015 <a href="http://www.legislation.gov.uk/uksi/2015/1455/contents/made">http://www.legislation.gov.uk/uksi/2015/1455/contents/made</a>	Introduces new information provision requirements relating to the additional pension flexibilities introduced in April 2015 for defined contribution schemes.
2015/1454 The Registered Pension Schemes (Transfer of Sums and Assets) Amendment No 2) Regulations 2015 <a href="http://www.legislation.gov.uk/uksi/2015/1454/contents/made">http://www.legislation.gov.uk/uksi/2015/1454/contents/made</a>	Makes provisions relating to the transfer of annuities as a result of the additional pension flexibilities introduced in April 2015.
2015/1483 The Public Service	Adds a number of specified offices that, if held, allow

Pensions Act 2013 (Judicial Offices) (Amendment) Order 2015 <a href="http://www.legislation.gov.uk/ukxi/2015/1483/contents/made">http://www.legislation.gov.uk/ukxi/2015/1483/contents/made</a>	membership of a judicial pension scheme for the purposes of the Public Service Pensions Act 2013.
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- 5.2 The legislation listed above is primarily concerned with overarching changes that the Government has made to pensions with regard to
- a) the introduction of the new State Pension from 6 April 2016,
  - b) the cessation of contracting-out for defined benefit pension schemes from 6 April 2016, and
  - c) the additional pension flexibilities (Freedom and Choice) introduced from 6 April 2015.
- 5.3 The cessation of contracting-out will have direct cost implications on both members and employers as it removes the rebate in National Insurance contributions that they have enjoyed since 6 April 1978 by virtue of membership of a pension scheme which was contracted-out of the earnings related element of the State Pension, i.e. State Earnings Related Pension Scheme (SERPS) to 5 April 2002 and State Second Pension (S2P) from 6 April 2002.
- 5.4 The changes to State Pension provision and contracting-out may have consequences for ongoing Pensions Increase liabilities on the Pension Fund relating to those members who accrued Guaranteed Minimum Pension entitlement under SERPS between 6 April 1978 and 5 April 1997, however the decision from Government about this aspect is still awaited.
- 5.5 The Chancellor, in his Summer Budget on 9 July 2015, announced that the Government would bring in measures to limit the Annual Allowance of high earners. Annual Allowance is the limit on a member's 'Pension Input' across 'Pension Input Periods' that end in a given tax year which, if exceeded, may lead to a tax charge on the member.
- 5.5.1 This will be done by the introduction of a tapered annual allowance for 2016-17 onwards whereby the annual allowance for an individual will be reduced by £1 for every £2 of 'adjusted income' they have over £150,000. The adjusted income for defined benefit schemes like the LGPS will be broadly calculated as:
- the individual's net income ('threshold income') plus:
  - the individual's 'Pension Input' amount.
- 5.5.2 The annual allowance will be tapered to a maximum reduction of £30,000, meaning that those with an adjusted income of £210,000 or more would have an Annual Allowance of £10,000 and would not lose any further Annual Allowance. The taper will not apply where the individual has 'threshold income' of £110,000 or less. Members with unused Annual Allowance can carry this forward to future years, but in future it will be the unused tapered Annual Allowance that will be carried forward.

- 5.5.3 In order to implement the Annual Allowance changes, the Government will put in place transitional arrangements for 2015-16 so that, from 6 April 2016 onwards, Pension Input Periods will align with tax years and, therefore, end on 5 April. As the LGPS Pension Input Periods have, up to now, run from 1 April to 31 March each year, the transitional arrangements will mean there will be two Pension Input Periods in 2015-16, the first from 1 April 2015 to 8 July 2015 and another from 9 July 2015 to 5 April 2016.
- 5.6 The Pension Savings Statements for the Pension Input Period that ended 31 March 2015 are due to be issued by 6 October 2015. These statements are issued to those LGPS members that have exceeded the Annual Allowance of £40,000 in that Period by virtue of their pension saving in the Pension Fund. The timing and issue of such statements is a requirement of the Registered Pension Schemes (Provision of Information) Regulations 2006. The letter accompanying the statements will indicate whether it is clear that an Annual Allowance Charge will be due or whether it appears that the member has sufficient Carry Forward from previous years to cover the excess in 2014-15. It is a member's personal responsibility to determine whether a Charge will be due, taking into account all of their Pension Savings not just that in the LGPS, and the amount of that Charge. If the Charge is greater than £2,000 the member may request that the Scheme pays the Charge to HM Revenue and Customs on their behalf, and has a reduction to their pension entitlement applied, based on actuarial tables issued by the Department for Communities and Local Government.

## **6. Consultations/Call for Evidence**

- 6.1 The Government launched their "Public sector exit payment cap consultation" <https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap> on 31 July 2015 and this ran until 27 August 2015.
- 6.1.1 The consultation sought views on proposals to legislate for a £95,000 cap on the total value of exit payments made to an individual in relation to their exit from a public sector employment.
- 6.1.2 LGSS Pensions Service provided input into the consultation response that was issued by LGSS in respect of the County Council.
- 6.1.3 It is recognised that should the proposal progress, consequential amendments to the LGPS Regulations would be required since the "value of exit payments" in this context is to include any strain cost arising from early payment of benefits; the regulation that currently requires immediate payment of unreduced benefits where employment is terminated on grounds of redundancy at or after age 55 may be problematic otherwise.
- 6.2 The Government launched "Strengthening the incentive to save: a consultation on pensions tax relief" <https://www.gov.uk/government/consultations/strengthening-the-incentive-to-save-a-consultation-on-pensions-tax-relief> on 8 July 2015 and this closed on 30 September 2015.
- 6.2.1 The consultation sought views on whether there is a case for reforming pensions tax relief or simply retaining the current system.

6.2.2 The stated context for reform is:

- people are living longer which has increased the need for them to have adequate savings to meet their aspirations in retirement,
- pension provision models have changed with defined contribution schemes becoming even more prevalent and all public service pension schemes having moved to a career average basis,
- the Government wish to support individuals to save for their retirement by offering clear, simple and transparent incentives, while ensuring such support is sustainable in the long term.

6.2.3 The current system is based on an “exempt – exempt – taxed” principle which defers taxation until retirement, i.e.

**Exempt** - employee and employer contributions are exempt from income tax and employer contributions are exempt from National Insurance contributions (subject to the Annual Allowance limitations).

**Exempt** – No personal tax is charged on investment growth.

**Taxed** – Pensions in payment are taxed as income, with up to 25% of the value of the pension benefits being able to be taken as tax free lump sum at retirement.

Benefits in excess of the Lifetime Allowance are subject to additional tax charges.

6.2.4 Whilst stating that the conclusion may be to maintain the current system, the Government not ruling out suggestions of a fundamental reform to a “taxed – exempt – exempt” principle based system, or less radical options such as retaining the current system but altering the Annual and Lifetime Allowances.

## 7. Training Events

7.1 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.

7.2 In order to facilitate the acquisition of skills and knowledge, appendix 2 lists all events that are deemed useful and appropriate.

7.3 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.

## 8. Relevant Pension Fund Objectives

Perspective	Outcome
<b>Governance</b>	<ul style="list-style-type: none"> <li>To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.</li> <li>Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.</li> </ul>
<b>Funding and Investment</b>	<ul style="list-style-type: none"> <li>To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.</li> <li>To ensure that sufficient resources are available to meet all liabilities as they fall due.</li> <li>To maximise the returns from its investments within reasonable risk parameters.</li> </ul>
<b>Communications</b>	<ul style="list-style-type: none"> <li>Promote the Scheme as a valuable benefit.</li> <li>Deliver a clear and consistent message; that is simple, relevant and impactful, uses plain English throughout and engages all levels of stakeholders' understanding.</li> <li>Provide clear information about the Scheme, including changes to the Scheme, and educate and engage with members so that they can make informed decisions about their benefits.</li> <li>Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately.</li> <li>Look for efficiencies in delivering communications including through greater use of technology and partnership working.</li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li>Provide a high quality, friendly and informative administration service to the Funds' stakeholders.</li> <li>Administer the Funds in a cost effective and efficient manner utilising technology.</li> <li>Ensure the Funds and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds.</li> <li>Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary.</li> <li>Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.</li> <li>Maintain accurate records and ensure data is protected and has authorised use only.</li> <li>Understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.</li> </ul>



## **9. Finance & Resources Implications**

- 9.1 There are no significant financial and resource implications as a result of the contents of this to note report.

## **10. Risk Implications**

- 10.1 There are no associated risks connected to the content of this report.

## **11. Communication Implications**

<b>Training</b>	All staff involved in the administration of the LGPS is aware of the new legislation and the impact on the calculation and payment of benefits from the scheme.
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## **12. Legal Implications**

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

## **13. Consultation with Key Advisers**

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

## **14. Alternative Options Considered**

- 14.1 There are no alternative options to be considered.

## **15. Background Papers**

- 15.1 None

## **16. Appendices**

- 16.1 Appendix 1 – Scheme Advisory Board – Options for separation of host authority and pension fund
- 16.2 Appendix 2 – List of training events

<b>Checklist of Key Approvals</b>	
Is this decision included in the Business Plan?	Not applicable
Will further decisions be required? If so, please outline the timetable here	No
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Sarah Heywood – 29/09/2015
Has this report been cleared by Deputy Head of Pensions?	Mark Whitby – 21/09/2015
Has the Chairman of the Pension Committee been consulted?	Councillor Hickford - 29/09/2015
Has this report been cleared by Legal Services?	Copy sent to Quentin Baker – 09/10/2015