

**CAMBRIDGESHIRE
PENSION FUND**



Pension Committee

Date: 25 June 2015

Report by: Deputy Head of Pensions

Subject:	Governance and Legislation Report
Purpose of the Report	To provide the Pension Committee with; 1) Information on issues concerning the governance of the Local Government Pension Scheme (LGPS) on a national and local basis; 2) Information on new or amending legislation affecting the LGPS; 3) Details of relevant consultations affecting the LGPS; and 4) Details of forthcoming training events.
Recommendations	That the Pension Committee notes the content of the report.
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1. Background

- 1.1 This is a new 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.
- 1.2 This information was previously reported in the Business Plan Update but to provide greater clarity of the issues and to avoid duplication it is felt that a separate standing report will better deliver the governance required around this area.

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

- 2.1 The Scheme Advisory Board has been operating in shadow form for approximately two years since the requirement for a national scheme advisory board was identified in the Public Service Pension Act 2013. The Shadow Scheme Advisory Board is scheduled to convert into its formal statutory status following the general election along with the appointment of Chairperson by the Secretary of State for Local Government and Communities. Following the appointment of Chairperson and the other representative positions of the Board, decisions regarding the number and types of supporting working groups will be identified.

- 2.2 The Shadow Advisory Board have released the Annual Report for 2013-14 which is a consolidation of the Annual Reports of the 91 Local Government Pension Scheme Funds in England and Wales. The aim of the consolidated Annual Report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. The key highlights from the report can be found in the following table;

Category	2013/14	2012/13
Active membership	1.8m	1.7m
Deferred membership	1.7m	1.6m
Pensioner membership	1.45m	1.4m
Total membership	5m	4.8m
Number of Scheme employers	10,671	9,340
Total assets	£192.1bn	£180.9bn
Net investment return on assets after fees	+5.9%	+12.5%
Total contributions paid	£8.7bn	£8.3bn
Total benefits paid	£8.6bn	£8.2bn
Average annual administration cost per member	£20.75	£21.42

- 2.2 On 16 April, the Shadow Scheme Advisory Board issued a letter to all LGPS administering authorities in England and Wales regarding the resourcing required for the ongoing work of the Scheme Advisory Board. Regulation 113 of the recently amended LGPS Regulations 2013 states the expenses incurred by Shadow Scheme Advisory Board (which are to be within its annual budget agreed by the Secretary of State) are to be treated as administration costs of the Scheme and are therefore a direct charge to the Fund.
- 2.2.1 The Secretary of State is now considering possible budget options for the funding of the Shadow Scheme Advisory Board. The options put forward are based on the size of the active membership of each scheme. For this Fund, the options suggested an annual levy of £6,500, £5,500 and £4,250, which equates to £0.35, £0.30 and £0.22 per all active members in the LGPS as at 2014.
- 2.2.2 The budget has yet to be agreed by the Minister but the Shadow Advisory Board are still working on alternative options such as the use of seconded staff to carry out its functions which may lower the annual levy. Based on the significant work programme facing the Shadow Scheme Advisory Board their preference would be for the £0.35 per member levy (£6,500 per annum).
- 2.2.3 Upon the agreement of the Secretary of State of the budget for 2015-16 and the formal establishment of the Shadow Advisory Board, levy notices will be issued to all administering authorities detailing the amount to be paid and the planned work programme for 2015-16.
- 2.3 As mentioned in the Cambridgeshire Pension Fund Business Plan Update presented at the March 2015 meeting of the Pension Fund Board, the Shadow Advisory Board have begun a project to look into methods of managing the deficits of LGPS Funds. At the Shadow Advisory Board meeting in London on 24 April, PwC discussed the findings and recommendations from the report that the Shadow Advisory Board commissioned them to undertake on this matter. The recommendations are concerned with;

- Standardising valuation assumptions for comparison purposes only;
- Greater transparency in funding plans with the division of employer contributions between the past and future service rate being reported; and
- The proposal that there should be a minimum level of employer contributions (generally the future service rate with a floor of the employee contribution rate).

We now wait to hear if and how these recommendations will be taken forward.

3. Governance - The Pensions Regulator

- 3.1 The Public Service Pensions Act 2013 extended the powers of the Pensions Regulator over public service pension schemes with effect from 1 April 2015.
- 3.2 In March 2015, the Pensions Regulator published its corporate plan for 2015-18. The plan for the next 3 years includes the following;
- Establish and run a regulatory regime for public service pension schemes;
 - Embed the regulatory regime around the government's defined contribution pension reforms and flexibility (freedom and choice);
 - Continue to provide automatic enrolment guidance to employers;
 - Disrupt pension scam models; and
 - Work with employers and trustees in line with their defined benefit strategy and code of practice.
- 3.3 The Pensions Regulator is aware that administration and governance standards in some public service pension schemes fall short of the requirements of the new legislation and standards the Regulator expects. The corporate plan sets out the method by which the Regulator will engage with pension boards and scheme managers to raise standards. The plan refers to a survey that the Regulator will issue in this scheme year to enable them to baseline the features and status of public service pension schemes. The survey will ask each scheme to baseline themselves against the standards expected and put in place plans to remedy any shortfalls. The Pensions Regulator will publish a report on the findings in due course.

4. Governance - Local Pension Board

- 4.1 The Public Service Pensions Act 2013 and Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 require each Fund to create a local pension board to assist the administering authority Cambridgeshire County Council to:
- secure compliance with the Local Government Pension Scheme (LGPS) regulations and other legislation relating to the governance and administration of the LGPS and also the requirements imposed by the Pensions Regulator in relation to the LGPS; and
 - ensure the effective and efficient governance and administration of the LGPS.

LGSS Pensions Service has worked closely with LGSS Democratic Services to create the local pension board within the County Council's constitution by the

statutory deadline of 31 March 2015. The local pension board was approved at the full Council meeting on 24 March 2015.

The local pension board is formed as follows;

Scheme Member Representative	Scheme Employer Representative
1) Barry O'Sullivan	1) Councillor Mac McGuire
2) John Stokes	2) Councillor Lucy Nethsinga
3) Vacant	3) Vacant

The Chairperson will be elected at the first meeting of the local pension board on 16 July 2015 at which the draft terms of reference will be agreed.

5. Legislation

5.1 The following legislation has been issued that has an affect on member's benefits;

Legislation	Outline/Relevance to the LGPS
The Public Service Pensions Revaluation Order 2015 (http://www.legislation.gov.uk/uksi/2015/769/contents/made)	Details that the increase to be applied on 1 April 2015 to a CARE pension built up during membership of LGPS 2014 during the whole of the 2013/14 scheme years is 1.2%. Pro-rata percentage increases apply for those that joined or left the scheme during the year.
The Guaranteed Minimum Pensions Increase Order 2015 http://www.legislation.gov.uk/uksi/2015/470/contents/made	Details that the increase to be applied from 6 April 2015 to the post 5 April 1988 Guaranteed Minimum Pension element of pension in payment is 1.2%.
Pension Schemes Act 2015 http://www.legislation.gov.uk/ukpga/2015/8/contents/enacted	Details protection for those taking advantage of the new pension freedoms from 6 April 2015 and introduces legislation on the new guidance service, Pension Wise. 5.2 refers in more detail.
The Pensions Increase (Review) Order 2015 http://www.legislation.gov.uk/uksi/2015/671/pdfs/uksi_20150671_en.pdf	Details that the increase to be applied from 6 April 2015 to a pension which began before 22 April 2014 will be 1.2%. Pro-rata percentage increases apply for later dates.
Taxation of Pensions Act 2014 http://www.legislation.gov.uk/ukpga/2014/30/pdfs/ukpga_20140030_en.pdf	Includes amendments that affect the age that trivial commutation lump sum payments may be made (age 55), and the limit at which a trivial commutation lump sum death benefit may be paid (£30,000).
The Local Government Pension Scheme (Amendment) Regulations 2015 http://www.legislation.gov.uk/uksi/2015/755/pdfs/uksi_20150755_en.pdf	Mostly corrected references and resolved technical issues in LGPS Regulations 2013.

5.2 Changes in the law introduced by the Pension Schemes Act 2015 mean that from 6 April 2015 many members of UK pension schemes which offer defined contribution

benefits will have increased flexibility over how they take their pension from age 55. This has become known in the industry as Freedom and Choice.

- 5.2.1 For LGPS members to benefit from the increased flexibilities such as taking a single, or a number of, cash sums from uncrystallised funds at different stages, they would need to have left all active membership of the LGPS in England and Wales and transferred their deferred benefits to a defined contribution scheme which offers this facility.
- 5.2.2 The Pension Schemes Act 2015 requires members who are transferring their 'safeguarded benefits' (which are LGPS benefits but not AVCs) to flexible benefits to take appropriate independent advice where the cash equivalent transfer value (CETV) in relation to all entitlement under the LGPS in England and Wales is more than £30,000. The administering authority must ensure that the member has received and can provide evidence of appropriate independent advice before making a payment.
- 5.2.3 The Fund Actuary is currently undertaking modelling to understand the effect on the funding level based on estimated levels of members transferring their benefits to defined contribution arrangements. However, early indications are that the funding position may improve as a result of this activity as the cost of paying out liabilities at the present time is cheaper to the Fund than the long term payment of benefits (based on current gilt yields).

6. Consultations/Call for Evidence

- 6.1 In March 2015 a joint call for evidence by the Department of Work and Pensions (DWP) and the Financial Conduct Authority (FCA) was released entitled "Transaction Costs Disclosure: Improving Transparency in workplace pensions" to explore:
 - What costs should be included in the transaction cost reporting;
 - How such costs should be captured and reported;
 - Whether information about other factors that impact on investment return should also be provided;
 - How trustees will receive costs information and whether additional disclosure requirements on other parties are necessary to enable this; and
 - When, how and in what format members and/or other prescribed persons should receive transaction cost information.

The Local Government Association (LGA)/Local Government Pensions Committee (LGPC) Secretariat issued a response to the consultation which expressed support for the extension of regulatory transparency of costs and charges to the LGPS. In stating this support the LGA/LGPC sought to ensure that any such extension would:

- Ensure the levels of transparency are those required for effective decision making by LGPS pensions committees;
- Provide an effective balance between the level of detail exposed and the cost of such exposure; and
- Support a greater degree of understanding of and accountability for scheme investment costs.

The response also indicates that an open and transparent market for LGPS investment costs is an effective way to achieve greater value for money and demonstrate increased accountability to the scheme's stakeholders.

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 1 lists all events that are deemed useful and appropriate.
- 7.3 Requests to attend events will be facilitated by the Governance Team process. However, it may be necessary to restrict numbers of attendees on some courses through reasons of cost.

8. Relevant Pension Fund Objectives

Perspective	Outcome
Governance	<ul style="list-style-type: none"> To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies. Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.
Funding and Investment	<ul style="list-style-type: none"> To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions. To ensure that sufficient resources are available to meet all liabilities as they fall due. To maximise the returns from its investments within reasonable risk parameters.
Communications	<ul style="list-style-type: none"> Promote the Scheme as a valuable benefit. Deliver a clear and consistent message; that is simple, relevant and impactful, uses plain English throughout and engages all levels of stakeholders' understanding. 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. Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately. Look for efficiencies in delivering communications including through greater use of technology and partnership working.

Perspective	Outcome
Administration	<ul style="list-style-type: none"> • Provide a high quality, friendly and informative administration service to the Funds' stakeholders. • Administer the Funds in a cost effective and efficient manner utilising technology. • 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. • Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary. • Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount. • Maintain accurate records and ensure data is protected and has authorised use only. • Understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.

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.

9. Risk Implications

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

11. 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.
Website	Information on Freedom and Choice can be found on the LGSS Pensions website.

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 Cambridgeshire Fund Business Plan Update report (February 2015)

16. Appendices

16.1 Appendix i) – Training events 2015-16.

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	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?	Chris Malyon – 09/06/2015
Has this report been cleared by Deputy Head of Pensions?	Mark Whitby – 09/05/2015
Has the Chairman of the Pension Committee been consulted?	Councillor Count – 09/06/2015
Has this report been cleared by Legal Services?	Laurie Gould on behalf of Quentin Baker – 15 June 2015