

**CAMBRIDGESHIRE  
PENSION FUND**



**Pensions Committee**

**Date:** 24 March 2016

**Report by:** Head of Pensions

<b>Subject:</b>	<b>Governance and Legislation Report</b>
<b>Purpose of the Report</b>	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.
<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 Appointment of Scheme Advisory Board Chairman**

- 2.1.1 The LGPS Scheme Advisory Board (SAB) has been notified that the Secretary of State has appointed Councillor Roger Phillips, a lead LGA member on workforce and pay negotiations, to the position of Chair.
- 2.1.2 Councillor Phillips is currently vice chairman of the Board, has chaired the UK Local Government Pensions Committee (LGPC) for the last two years. He is a member and former leader of Herefordshire Council and chaired the LGPS2014 Project Board.

## **2.2 Queen's Counsel opinion on status of local pension boards**

- 2.2.1 At the 25 January 2016 meeting of the Scheme Advisory Board of England and Wales, the Queen's Counsel opinion of the status of local pension boards within local authorities was considered. Whilst the detail of the opinion has not been made publically available it has been reported that there may be some implications for the instances where a fund has set up a joint committee and board. In the meantime, the Scheme Advisory Board guidance on the creation and operation of local pension boards is being reviewed in line with the Queen's Counsel opinion.

## **3. Governance – Activities of the Pensions Regulator**

### **3.1 The Pensions Regulator – Annual Benefit Statements**

- 3.1.1 All LGPS funds have a statutory requirement to produce an Annual Benefit Statement to all active scheme members by 31 August each year. Last year a large number of funds were unable to produce benefit statements by this date largely due to the quality and timeliness of data being supplied by the scheme employers. The Pensions Regulator has been in contact with a number of funds who reported their inability to meet this statutory requirement (considered by the Pensions Regulator as a breach in the law) to discuss improvement plans to enable these funds to meet the statutory deadline this year.
- 3.1.2 The Pensions Regulator has reported that they have received a number of high quality improvement plans that they are considering sharing with the rest of the LGPS community, via the LGA, subject to approval of the funds concerned.
- 3.1.3 The Pensions Regulator has recognised the problems most funds have had with receiving timely and accurate data from scheme employers. Although the Pensions Regulator's powers under the Public Service Pension Act 2013 do not extend to scheme employers he is considering producing guidance on the expectations on scheme employers to enable scheme managers (administering authorities) to fulfil their statutory obligations. Should the Pensions Regulator determine that this guidance is appropriate it will be issued in Spring 2016.

### **3.2 The Pensions Regulator survey of public service pension schemes**

- 3.2.1 The Pensions Regulator conducted a survey of all public service pension schemes between July and September 2015 to ascertain their compliance with Code of Practice. The results of which have now been published. A separate report detailing the Pensions Regulator's findings is to be presented at the March 2016 meeting of the Pension Committee.

### **3.3 Her Majesty's Treasury – good record keeping**

- 3.3.1 Alongside the Pensions Regulator's interest in good record keeping, Her Majesty's Treasury are in the process of scoping a project on public service pension schemes record keeping. The Pension Committee will be updated on this project once further information is received.

## **4. Legislation**

### **4.1 Revaluation of Local Government Pension Scheme Pensions**

- 4.1.1 On 13 October 2015 it was reported that the September 2015 Consumer Price Index (CPI) was a negative value of -0.1%. The Public Services Pensions Act 2013 requires that where there is a percentage decrease the Treasury Order, that provides for the rate of revaluation of the CARE element of Public Service Pensions, must be approved by both the House of Commons and the House of Lords for it to become law; this is referred to as the affirmative procedure.
- 4.1.2 On 2 February 2016 a written ministerial statement was made to the House of Lords to proceed with the negative revaluation of LGPS CARE pension accounts for those with active membership in the 2015-16 scheme year. The negative order now must be debated and approved by parliament before the final version of the order can be issued. The date that this will be debated has not yet been confirmed.
- 4.1.3 Should the order become law, it is understood that negative revaluation (of minus 0.1%) will be applied to the following;
- active pension accounts
  - any intervening periods between aggregated periods of membership where the break was less than 5 years
  - deferred and retirement accounts where the member ceased to be an active member between 1 April 2015 and 31 March 2016
  - partners' and children's pension accounts where an active member died in service between 1 April 2015 and 31 March 2016
  - partners' and children's pension accounts where an active member became a deferred member between 1 April 2015 and 31 March 2016 and died in the same year
  - partners' and children's pension accounts where an active member became a pensioner member between 1 April 2015 and 31 March 2016 and died in the same year
- 4.1.4 The question of whether a negative revaluation of pension would result in unauthorised pension payments for those members who ceased active membership during 2015-16 and who are drawing their pension has been raised with HM Treasury, and this has yet to be answered. Should negative revaluation prove to trigger unauthorised payments, then tax charges would arise for both the scheme and the scheme member; it is assumed that this is not the Government's intention, but may require legislative change to be avoided.
- 4.1.5 There will be no impact on Final Salary linked benefits. Those with deferred benefits that left prior to 1 April 2015, those in receipt of Final Salary linked pensions and those that retired with a CARE pension prior to 1 April 2015 will not have their pensions reduced, but neither will they see an increase, since there will be no Pensions Increase (Review) Order coming into force in April 2016.

## 4.2 Other legislation

4.2.1 The following legislation has been issued that may have an impact on LGPS member benefits;

Legislation	Outline/Relevance to the LGPS
<p>The Transfer of Functions (Pensions Guidance) Order 2015</p> <p><a href="http://www.legislation.gov.uk/ukSI/2015/2013/contents/made">http://www.legislation.gov.uk/ukSI/2015/2013/contents/made</a></p>	<p>Schedule 4 of the Act puts in place the legislation regarding the reforms to the Annual Allowance provisions announced in the July 2015 Budget, Annual Allowance being the mechanism by which the Government seeks to limit tax relievable pension saving.</p> <p>The legislation:</p> <ul style="list-style-type: none"><li>• Aligns Pension Input Periods, the periods each year over which pension saving is tested against the Annual Allowance, with tax years from 2016/17</li><li>• Provides transitional arrangements for 2015/16 due to the shift in Pension Input Periods, in the LGPS these ran from 1 April to 31 March but this year will run from 1 April 2015 to 5 April 2016 in the vast majority of cases</li><li>• Introduces tapered Annual Allowance for “high income individuals” from 6 April 2016, i.e. if both:<ul style="list-style-type: none"><li>○ their ‘threshold income’ exceeds £110,000, and</li><li>○ their ‘adjusted income’ for the tax year exceeds £150,000,</li></ul>then these individuals will have the standard Annual Allowance of £40,000 reduced (to no less than £10,000) based on a reduction of £1 for each £2 that their ‘adjusted income’ for the tax year exceeds £150,000.</li></ul>

## 5. Consultations

### 5.1 Asset pooling in the LGPS

- 5.1.1 As detailed in the previous Governance and Legislation report, in the July Budget 2015, the Chancellor announced the Government’s intention to work with the LGPS administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance.
- 5.1.2 Administering authorities were invited to submit proposals for pooling which the Government will assess against published criteria by 19 February 2016.
- 5.1.3 The Cambridgeshire Pension Fund submitted a joint response with the other 9 funds that it proposes to pool with.

- 5.1.4 Also on 25 November the government released a consultation on proposed “backstop” legislation that would require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets and to introduce a power for the Secretary of State to intervene in the investment function of an administering authority where it has not had sufficient regard to guidance published by the Secretary of State on the criteria for pooling.
- 5.1.5 The consultation also recognised that existing regulations place restrictions on certain investments that may, if left unchanged, constrain authorities considering how best to pool assets. Comments were invited on proposed changes to these regulations.

## **5.2 Public sector exit payment recovery regulations**

- 5.2.1 On 20 December 2015, the government released a short consultation on draft regulations that will give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015, which will allow for the recovery of exit payments when an individual earning in excess of £80,000 per annum returns to the public sector within a year of leaving their previous employment from which they received an exit payment.
- 5.2.2 The Government has modified some elements of their proposal since it was last consulted on. These changes include bringing into scope those that re-enter a different part of public service from that which they left, reducing the minimum salary at which the provisions apply from £100,000 to £80,000 per annum, tapering the amount to be repaid relative to the length of break between employments and employer pension strain costs are now being included as part of the exit payment that is subject to the recovery provisions.
- 5.2.3 The consultation closed on 25 January 2016 and further information can be found at the following link:  
  
<https://www.gov.uk/government/consultations/public-sector-exit-payment-recovery-regulations>
- 5.2.4 As the legislation has no direct impact on the Fund, LGSS Pensions Service did not respond to the consultation, however there was input to the response that was made by LGSS HR on behalf of the County Council as an employing authority.

## **5.3 Reforms to public sector exit payments**

- 5.3.1 On 5 February 2016, HM Treasury released a public consultation on reforms to public sector exit payments. This follows the announcement in the Spending Review and Autumn Statement 2015 that the government will continue to modernise the terms and conditions of public sector workers by taking forward targeted reforms in areas where the public sector has more generous rights than most of the private sector. As part of this the government committed to consulting on further cross-public sector action on exit payment terms to reduce the costs of redundancy payments and ensure greater consistency between workers.

5.3.2 The consultation sets out the options to make public sector exit compensation terms fairer, more modern and more consistent as follows;

- Setting the maximum tariff or calculating exit payments at 3 weeks' pay per year of service
- Capping the maximum number of months' salary that can be used when calculating redundancy payments to 15 months.
- Setting a maximum salary for the calculation of exit payments (possibly £80,000)
- Enabling the amount of lump sum compensation an individual is entitled to receive to be tapered as they get close to the normal pension age or target retirement age of the pension scheme to which they belong or could belong in that employment.
- Reducing the cost of employer-funded pension top-up payments, such as limiting the amount of employer funded top ups for early retirement, or removing access to them and/or increasing the minimum age at which employee is able to receive an employer funded pension top up.

5.3.3 Subject to the outcome of this consultation, the government would look to departments responsible for the main public service workforces to negotiate and agree reforms, and then implement them, including where applicable through changes to secondary regulations. The government would also consider setting a reform framework in future primary legislation depending on progress in implementing the reforms.

5.3.4 LGSS Pensions Service will be working with LGSS Human Resources to provide a full response to HM Treasury on behalf of the County Council as the employing authority. The closing date for responses is the 3 May 2016. The full consultation can be found at the following link;

<https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments>

## 6. 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, **Appendix 1** lists all 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

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>

## **8. Finance & Resources Implications**

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

## **9. Risk Implications**

- a) Risk(s) associated with considering this report

<b>Risk</b>	<b>Mitigation</b>	<b>Residual Risk</b>
There is no risk associated with this report.		

- b) Risk(s) associated with not considering this report

<b>Risk</b>	<b>Risk Rating</b>
That the Committee are ill-informed about important consultations and changes affecting the Fund they are responsible for administering	Red

## **10. Communication Implications**

<b>Training</b>	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



<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 – 2/3/2016
Has this report been cleared by Head of Pensions?	Mark Whitby – 17/2/2016
Has the Chairman of the Pension Committee been consulted?	Councillor Hickford – 2/3/2016
Has this report been cleared by Legal Services?	Sent to Quentin Baker – 7/3/2016

## Appendix 1

### Internal/External training and events 2016-17

The list of training events will be updated as we become aware of definitive dates and new events. We will also continue to email details of the training events as soon as we are notified where we feel members of the Pension Committee, Investment Sub-Committee and Pension Fund Board will benefit from attending.

2 February 2016	LGSS Triennial Valuation Training Day (NPF)	2	Officers, Committee/Board Members
3 February 2016	LGSS Triennial Valuation Training Day (CPF)	2	Officers, Committee/Board Members
26 February 2016	Schroders Trustee Training (Part 1)	1	Committee/Board Members
3 – 4 March 2016	LGC Investment Seminar	2	Officers, Committee/Board Members
15 April 2016	Schroders Trustee Training (Part 2)	1	Committee/Board Members
16 - 18 May 2016	PLSA Local Authority Conference	2	Officers, Committee/Board Members
June 2016 tbc	Heywood Class Group AGM	2	Officers
10 June 2016	Schroders Trustee Training	2	Officers, Committee/Board Members
23 – 24 June 2016	13 <sup>th</sup> Annual LGPS Trustees Conference	3	Committee/Board Members
18 – 19 July 2016	LGC Pension Fund Symposium	2	Officers
8 – 9 September	LGC Investment Summit	3	Officers, Committee/Board Members
October 2016 tbc	Heywood User Group	2	Officers
4 October 2016	LGSS Joint Investment Training Day	1	Officers, Committee/Board Members
19 – 21 October 2016	PLSA Annual Conference and Exhibition	2	Officers, Committee/Board Members
2 November 2016	PLSA Local Authority Forum	2	Officers, Committee/Board Members
8 November 2016	UBS Seminar Steps 1	2	Officers, Committee/Board Members
22 November 2016	UBS Seminar Steps 2	2	Officers, Committee/Board Members
22 – 23 November 2016	Pensions Managers' Annual Conference	4	Officers
December 2016	LAPFF Annual Conference	3	Officers, Committee/Board Members

With effect from October 2015, the National Association of Pension Funds (NAPF) was renamed Pensions and Lifetime Savings Association (PLSA).