

**CAMBRIDGESHIRE  
PENSION FUND**



**Pensions Committee**

**Date:** 7 July 2016

**Report by:** 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> 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>	<b>Jo Walton – Governance and Regulations Manager, LGSS Pensions Service</b> <b>Tel: 01604 367030</b> <b>E-mail: <a href="mailto:jwalton@northamptonshire.gov.uk">jwalton@northamptonshire.gov.uk</a></b>

**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 – Activities of the Scheme Advisory Board**

**2.1 Scheme Annual Report 2015**

- 2.1.1 The Scheme Advisory Board has published its third Annual Report for the LGPS in England and Wales. It is a report based on information collated from the Annual Reports and audited Financial Statements of the LGPS funds in England and Wales to 31 March 2015.
- 2.1.2 The purpose of the Annual Report is to have a single source of information regarding the status of the LGPS. One of the top priorities of the Board is to continually improve information about the Scheme as a whole.

### 2.1.3 Key information of the report is highlighted below –

- The total membership of the LGPS grew by 144,000 (2.8%) to 5.1m members in 2015 from 5.0m in 2014 and number of LGPS employers increased by 1,130 (11%) to 11,801;
- The total assets of the LGPS increased by £25.1bn (13.1%) from £192.1bn to £217.2bn. These assets were invested in pooled investment vehicles (42.8%), public equities (36.8%), fixed interest/index linked (7.7%), property (7.0%), as well as other asset classes (0.5%);
- The Local Authority return over 2014/2015 was +13.2%. This was 2.8% lower than a corporate pension fund peer group, which is based on 98 Funds (covering 60% of UK corporate funds) with a total market value of £346bn;
- The scheme continued to remain cash-flow positive. Scheme income exceeded scheme outgoings by £3bn;
- The funds all received unqualified external financial audit certificates from the scheme's external statutory auditors; and

Full details of the Annual Report can be found at -

<http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report>

## 3. Governance – Activities of the Pensions Regulator

### 3.1 The Pensions Regulator – Scorpion Campaign

- 3.1.1 On 23 March the Pensions Regulator launched a revamped scorpion campaign to warn individuals of the dangers of being scammed out of their retirement savings. The campaign uses real examples of individuals who have lost their life savings in order to expose the continuing threat of pension scams.
- 3.1.2 The campaign encourages individuals near retirement who want to discuss their retirement options to call either Pension Wise or The Pensions Advisory Service. It confirms that reputable financial organisations will not call out of the blue to discuss retirement plans and recommends these calls are terminated.
- 3.1.3 The Pension Regulator has issued guidance on how trustees can help protect members against pension scams. The below table shows the 5 core areas of the guidance and how Cambridgeshire Pension Fund complies –

Core Area	Detail	Compliance	Further Information
<b>Read and share the member scams booklet</b>	Downloadable booklet for members available on the Pension Regulators website.	Published on Cambridgeshire Pension Fund website.	<a href="http://www.thepensionsregulator.gov.uk/docs/pension-scams-booklet-members.pdf">http://www.thepensionsregulator.gov.uk/docs/pension-scams-booklet-members.pdf</a>
<b>Check the details</b>	A publication for pension professionals is available to	Robust transfer process with relevant authority obtained from the	<a href="http://www.thepensionsregulator.gov.uk/docs/pensi">http://www.thepensionsregulator.gov.uk/docs/pensi</a>

	download with a check list to ensure due diligence is undertaken on all transfer requests.	member. Financial advice must be sought for any transfer value over £30,000.	<a href="#">on-scams-action-pack.pdf</a>
<b>Proactively engage with members at risk</b>	Contact members who are believed to be at risk to ensure they understand the implications of their transfer clarifying with them the points on the checklist tables.	Officers will contact individuals if a transfer arrangement does not comply with the due diligence process.	<a href="https://www.pensionsadvisoryservice.gov.uk">https://www.pensionsadvisoryservice.gov.uk</a>
<b>Direct members to The Pensions Advisory Service</b>	Ask members to call TPAS to discuss the implications of their transfer, including tax issues.	The TPAS contact information is on all transfer out correspondence to members.	<a href="http://www.pensionsadvisoryservice.org.uk">http://www.pensionsadvisoryservice.org.uk</a>
<b>Raise the alarm</b>	Alert Action Fraud if a member insists on proceeding with a transfer you believe may be a scam.	Officers will alert Action Fraud in circumstances where fraud is a high likelihood.	<a href="http://www.actionfraud.police.uk">http://www.actionfraud.police.uk</a>

## 3.2 Corporate Plans

3.2.1 The Pensions Regulator has published its corporate plan for 2016-19 which outlines their top ten priorities for the period up to 2019.

3.2.2 The top ten priorities in the plan are listed below –

1. Successfully implement automatic enrolment;
2. Protect consumers from poorly governed master trusts;
3. Effectively regulate defined benefit schemes;
4. Effectively regulate public service pension schemes;
5. Maintain confidence in pensions;
6. Improve the quality of scheme governance;
7. Extend our regulatory influence;
8. Increase member engagement with pensions;
9. Develop our people; and
10. Be an effective and efficient regulator

## 3.3 Scheme Returns

3.3.1 Scheme returns are used by the Pensions Regulator to help maintain the register of pension schemes. The information collected is shared with the Pension Protection Fund and the Pension Tracing Service.

3.3.1 It is a legal requirement to supply the scheme return and failure to do so in the timeframe specified is a breach of the Pensions Act 2004 and could lead to a fine.

- 3.3.2 Officers of the Fund have received notice that the scheme return will be sent shortly and there will be a 6 week turnaround on this.

### 3.4 Fair Deal Consultation

- 3.4.1 On 27 May the Government launched a 12 week consultation on a number of important changes to the Local Government Pension Scheme in England & Wales. A link to the consultation, along with the Draft Local Government Pension Scheme (Amendment) Regulations 2016 can be found in appendix 3. The closing date for responses is Saturday 20 August 2016.
- 3.4.2 Much of the consultation document focuses on the long awaited changes being proposed to the scheme in order to accommodate New Fair Deal. The proposed changes seek to cover all LGPS scheme employers who are public service employers: this includes local authorities, academies, together with other bodies listed in Part 1 of Schedule 2, but **excludes** further & higher education institutions and Police & Crime Commissioners. Where individuals are compulsorily transferred to a body listed in Part 2 of Schedule 2 that body will be required to designate those individuals as eligible for membership of the scheme.
- 3.4.3 The proposal is that in future such employers **must** enter into admission agreements where they compulsorily transfer scheme members (*“protected transferees”*) to an independent service provider (*“protected transferee employer”*) who does not offer an alternative public service pension scheme.
- 3.4.4 The Best Value Staff Transfers (Pension Direction) 2007 would be revoked, as it would no longer be required.
- 3.4.5 For retenders of pre-existing contracts the suggestion would appear to be that pension protection for original transferees could continue via existing broadly comparable schemes, rather than compulsory admission agreements in the LGPS, albeit that option would remain available as it is now.
- 3.4.6 Administering Authorities will be required to maintain and publish a list of all admission agreements it has entered into – including those historic agreements already in place.
- 3.4.7 Cambridgeshire Pension Fund will be participating in this consultation and the results will be presented to the Pensions Committee as soon as available.
- 3.4.8 The full consultation can be found at the following link –  
[https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations?\\_cldee=ZW5xdWlyZWVzQGh5bWFucy5jby51aw%3d%3d&urlid=0](https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations?_cldee=ZW5xdWlyZWVzQGh5bWFucy5jby51aw%3d%3d&urlid=0)

## **4. Legislation**

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

- 4.1.1 Each April, a member's pension account that has accrued in the Career Average scheme (post 31<sup>st</sup> March 2014) during the period 1<sup>st</sup> April to 31<sup>st</sup> March is revalued in accordance with Public Service Pensions Revaluation (Prices) Orders.
- 4.1.2 The 2016 Order (SI 2016/438) laid before Parliament on 24<sup>th</sup> March 2016 prescribed that the full year revaluation adjustment to be applied at one second after midnight on 31 March 2016 to the Career Average pension earned up to 31 March 2016 for Schemes such as the LGPS that revalue by reference to the change in prices is a negative figure i.e. -0.1%.
- 4.1.3 Following concerns that applying the negative Revaluation Order to pensioners who left active service during the 2015/16 Scheme year would result in unauthorised payments being made, the Government clarified on 29<sup>th</sup> March 2016 that the 2016 Revaluation Order should **not** be applied to pensions in payment. The Government also confirmed that the Scheme Regulations will be changed to correct the position for future years.
- 4.1.4 This means that for the 2015/16 Scheme year a negative revaluation of -0.1% will be applied to active pension accounts in the LGPS. However, Schemes are still waiting for confirmation of the approach required for members who left part way through the 2015/16 Scheme year but did not take their pension (i.e. deferred members). The considerations are whether the -0.1% revaluation should be applied to such leavers at all, if it should be applied, whether it should be proportioned depending on when the member left during the year and how the proportioning should be done, whether in line with the Pensions Increase (Review) Order or by another method.

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

- 4.2.1 Earlier in 2016 the Government issued a consultation exercise which related to a person who leaves a relevant public sector employment with a salary of £80,000 or more and subsequently rejoins another part of the public sector within 12 months, may have to pay a proportion of the exit payments they received back to their prior employer.
- 4.2.2 Initially the Government expected that the reforms would take effect from April 2016. However, the draft regulations have yet to be passed, and the exit payment recovery provisions will not take effect until these are on the statute books. Whilst the Government has yet to confirm when they now expect the reforms to take effect the understanding is that they hope to have laid the regulations before Parliament before the start of summer recess in July.

### **4.3 Change to discount rate**

- 4.3.1 The 2016 Budget took place on 16th March 2016. In the Budget, the Government announced that the discount rate used for valuing public service pension schemes had been reviewed and had reduced from 3.0% to 2.8%. The reduction in the discount rate meant that immediately all transfers of pension rights to and from the LGPS would need to be suspended until revised factors and guidance had been issued by the Government's Actuary. DCLG also confirmed that Cash Equivalent Value calculations in relation to pension sharing on divorce were affected together with early retirement payment reductions; calculations for Scheme Pays, a means to offset Annual Allowance and Lifetime Allowance tax charges; commutation of trivial pensions; purchases of additional pension.
- 4.3.2 The revised guidance and factors were issued by DCLG on 29<sup>th</sup> April 2016.

### **4.4 LGPS contribution bands and employee contribution rates**

- 4.4.1 The Government confirmed that the contribution bands used to determine the employee's pension contribution rate were to remain unchanged for the 2016/2017 year.

### **4.5 Other legislation**

<p>4.5.1 The following legislation has been issued that may have an impact on LGPS member benefits;<b>Legislation</b></p>	<p><b>Outline/Relevance to the LGPS</b></p>
<p>The Registered Pension Schemes (Provision of Information) (Amendment) Regulations 2016</p> <p><a href="http://www.legislation.gov.uk/ukxi/2016/308/regulation/2/made">http://www.legislation.gov.uk/ukxi/2016/308/regulation/2/made</a></p>	<p>In March 2016, SI 2016/308 was issued prescribing certain information that LGPS administering authorities must provide to scheme members in respect of the annual allowance, specifically for 2015/16, scheme administrators will need to provide pensions saving statements to scheme members where either a) their pension input amount for the whole of 2015/16 exceeded £80,000, or b) where their pension input amount for the post-alignment tax year (08/07/2015 to 05/04/2016) exceeded £40,000.</p> <p>However, scheme administrators must also provide pensions saving statements if they believe that the member has flexibly accessed their pension benefits for the first time and they have a pension input amount of £10,000 or more for money purchase or hybrid arrangements.</p> <p>The purpose of this Order is to make consequential amendments to secondary legislation resulting from the ending of contracting-out for salary related schemes on 6 April 2016. Amendments were required to ensure that members' accrued contracted out rights are preserved and that schemes are able to undertake their administrative functions following the end of contracting-out.</p>
<p>2016/200 The Pensions Act 2014 (Abolition of Contracting-out for Salary Related Pension Schemes) (Consequential Amendments and Savings) Order 2016</p> <p><a href="http://www.legislation.gov.uk/ukxi/2016/200/contents/made">http://www.legislation.gov.uk/ukxi/2016/200/contents/made</a></p>	<p>The Pension Sharing (Miscellaneous Amendments) Regulations 2016.</p> <p>This instrument amends various Statutory Instruments concerned with pension sharing on divorce to take account of changes which have already been made that give pension scheme members a wider range of options as to how they can take flexible benefits. It also makes amendments to existing regulations to clarify which pension rights are shareable on divorce. and to make it clear when a reduction for underfunding may be made.</p>

## 5. Training Events

- 5.1 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.

- 5.2 In order to facilitate the acquisition of skills and knowledge, appendix 1 lists all events that are deemed useful and appropriate.
- 5.3 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.

## 6. 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>

## 7. Finance & Resources Implications

- 7.1 Not applicable

## 8. Risk Implications

- a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
There is no risk associated with this report		

- b) Risk(s) associated with not undertaking the proposal

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

## 9. 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.
-----------------	--

## 10. Legal Implications

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

## **11. Consultation with Key Advisers**

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

## **12. Alternative Options Considered**

12.1 There are no alternative options to be considered.

## **13. Background Papers**

13.1 None

## **14. Appendices**

14.1 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 – 14/6/2016
Has this report been cleared by Head of Pensions?	Mark Whitby – 25/5/2016
Has the Chairman of the Pension Committee been consulted?	Councillor Leeke – 14/6/2016
Has this report been cleared by Legal Services?	Quentin Baker – 15/6/2016

## 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
29 June 2016	Local Pension Board – One year on Seminar	2	Board Members
19 – 20 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
6 October 2016	Fundamentals XV 2016 – Day 1	2	Officers, Committee/Board Members
19 – 21 October 2016	PLSA Annual Conference and Exhibition	2	Officers, Committee/Board Members
1 November 2016	Fundamentals XV 2016 – Day 2	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
29 November 2016	Fundamentals XV 2016 – Day 3	2	Officers, Committee/Board Members
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).