

## Bath & North East Somerset Council

MEETING:	<b>LOCAL PENSION BOARD</b>
MEETING DATE:	<b>13 June 2019</b>
TITLE:	<b>LGPS: Regulatory update</b>
WARD:	<b>ALL</b>

### AN OPEN PUBLIC ITEM

List of attachments to this report:

Appendix 1 – Current matters affecting LGPS administration May 2019

Appendix 2 – Copy of final response to informal MHCLG consultation on ‘LGPS Asset Pooling Statutory Guidance’

Appendix 3 – Copy of final response to MHCLG consultation on ‘Fair Deal’

Appendix 4 – Copy of final response to MHCLG consultation on ‘Late Retirement Factors’

Appendix 5 – CIPFA Open Letter

## 1 THE ISSUES

The purpose of this report is to update the Pension Board on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration. An updated list is included in Appendix 1.

A number of consultations that were released by MHCLG have now been responded to by APF, these responses are included as Appendix 2, 3 & 4.

Two further consultations were recently released, one by HM Treasury on ‘Restricting Exit Payments in the Public Sector’ and one by MHCLG on ‘Changes to the Local Valuation Cycle and the Management of Employer Risk’. APF are currently drafting responses to both of these consultations.

## 2 RECOMMENDATIONS

That the Pension Board:

2.1 Notes the current position regarding the developments that could affect the administration of the Fund.

2.2 Notes the responses sent to the MHCLG consultations on ‘LGPS Asset Pooling’, ‘Fair Deal’ & ‘Late Retirement Factors’.

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates.
- 3.2 Any other specific areas will be reported as required.

### **4 LGPS SAB COST MANAGEMENT PROCESS**

- 4.1 The Public Service Pensions Act 2013 set out that public sector schemes were to be monitored to ensure that they are affordable and sustainable. Unlike the unfunded schemes LGPS also has a built in check driven by the Scheme Advisory Board
- 4.2 In September 2018 HM Treasury announced that as a result of scheme valuations all public service pension schemes, including the LGPS had breached the 2% cost cap floor which would lead to member benefits improvements.
- 4.3 SAB has its own cost management which will allow any changes to benefits to be taken into account before the HM Treasury process begins
- 4.4 A small technical group has been set up by SAB to look at changes to benefits
- 4.5 The other unfunded public sector schemes have a further complication in that it was confirmed in the Budget that the SCAPE discount rate used for assessing their employer contribution rate had reduced from 2.8% to 2.4% which means not only will the benefits be improved but the employers will also be paying more into the scheme.
- 4.6 LGPS does not have the same problem but there will be some changes to member benefits.
- 4.7 It was intended that all scheme changes would be effective from 1 April 2019 and will apply until at least March 2023. However, in January, the Government announced a pause in the cost cap process due to uncertainty caused by a court ruling on elements of the 2014/15 scheme reforms and subsequently the SAB confirmed that they would also be pausing their own cost management process until the effects of the outcome of this case is clear.
- 4.8 Therefore, scheme changes will not be in place for 1 April 2019. The SAB are in the process of writing to the Minister to open discussions about any alternative cost management package and seek his agreement that the Board must be part of any future discussions surrounding the remedy package should the court ruling stand.
- 4.9 As a result of these four year reviews it is expected that local fund valuations will also be made on a quadrennial timeframe. A consultation has now been released proposing this.

## **5 MHCLG LGPS CONSULTATIONS**

- 5.1 LGPS Asset Pooling - In Jan 2019, MHCLG launched an informal consultation and draft statutory guidance on 'LGPS Asset Pooling' which sets out the requirements on administering authorities, replacing and building on previous non-statutory guidance issued in Nov 2015. The consultation closed on 28 Mar 2019, a copy of the response sent on behalf of APF is included as Appendix 2.
- 5.2 Fair Deal - On 10 Jan 2019, MHCLG launched a policy consultation and draft regulations on 'Fair Deal' containing proposals to strengthen the pension protections that apply when an employee of a LGPS employer is compulsorily transferred to the employment of a service provider. The consultation closed on 4 Apr 2019, a copy of the response sent on behalf of APF is included as Appendix 3.
- 5.3 Late Retirement Factors - On 28 Mar 2019, MHCLG conducted a short consultation on proposed changes to the late retirement increase factors and guidance. The proposals include a change in methodology as well as a change in factors which is intended to remove the 'cliff edge' that was the result of the last factor change in January 2017 for some members. The consultation closed on 17 Apr 2019, a copy of the response sent on behalf of APF is included as Appendix 4.
- 5.4 Local Valuation Cycle and the Management of Employer Risk - On 8 May 2019, MHCLG launched a policy consultation on proposed amendments to the LGPS regulations 2013 covering the following areas:-
- a) Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle
  - b) A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles
  - c) Proposals for flexibility on exit payments
  - d) Proposals for further policy changes to exit credits
  - e) Proposals for policy changes to employers required to offer LGPS membership

The consultation closes on 31 Jul 2019, APF are currently in the process of drafting a response.

## **6 TREASURY CONSULTATION - Exit Payments in the Public Sector**

6.1 On 10 April 2019 HM Treasury launched a further consultation called 'Restricting Exit Payments in the Public Sector'. This is a 12 week consultation closing on 3 July 2019 to which APF are currently drafting a response.

6.2 Introducing a cap on exit payments will have significant implications for employers as well as for administering authorities.

6.3 It is expected that MHCLG will run a separate consultation in relation to the LGPS in England and Wales, which will cover amongst other things the agreement and implementation of a common costing methodology.

## **7 RISK MANAGEMENT**

7.1 No specific issues to consider.

## **8 EQUALITIES**

8.1 None as this report is primarily for information only.

## **9 CONSULTATION**

9.1 This report is primarily for information and therefore consultation is not necessary.

## **10 ISSUES TO CONSIDER IN REACHING THE DECISION**

10.1 The issues to consider are contained in the report.

## **11 ADVICE SOUGHT**

11.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Strategic Director or Resources) have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	<i>Kate Shore, Technical &amp; Compliance Advisor 01225 395283</i> <i>Geoff Cleak, Pension Manager 01225 395277</i> <i>Liz Woodyard, Investment Manager 01225 5306</i>
<b>Background papers</b>	<i>LGA Bulletins</i> <i>MHCLG Consultation Documents</i> <i>HM Treasury Consultation Document</i> <i>SAB Meeting Minutes</i> <i>Technical Group Meeting Minutes</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	