

Croydon Council

REPORT TO:	Local Pension Board 11 July 2019
SUBJECT:	LGPS Governance Updates – Items Under Consideration by the Scheme Advisory Board
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury

1. RECOMMENDATIONS

- 1.1 The Board is asked to note the contents of this report.

2. EXECUTIVE SUMMARY

- 2.1 This report deals with various issues being considered by the LGPS Scheme Advisory Board, including the Code of Transparency compliance system and the £95,000 cost cap.

3 DETAIL

Code of Transparency compliance system

- 3.1 In April the Scheme Advisory Board published an invitation to tender for the "Code of Transparency compliance system". The tender was to design, build, host and support a system to validate / check for completion the templates received from the relevant fund managers for each of the relevant LGPS funds and or Pools. In May they released the templates and guidance.
- 3.2 The templates are an integral part of the Board's Code of Transparency. The over 110 existing Code signatories will be encouraged to make use of the new templates as soon as possible but will have a transition period of up to 12 months to ensure they can adapt systems without interrupting the current flows of data. New signatories, including those property and private markets managers who can take advantage of the new templates will be expected to use them immediately.
- 3.3 The Board recognises the importance of the timely and accurate receipt of cost data but also that effective analysis and 'decision maker' education is equally vital in the delivery of investment value. Template data should lead to better management of cost but it is only one element alongside risk and performance contributing to the returns necessary to secure the pensions of our scheme members for the future.

£95,000 Cost Cap

- 3.4 Later that month HM Treasury launched a consultation on public sector exit payments – the so-called £95k cap.

- 3.5 The cap will eventually apply to all public sector employers but is to be implemented in two stages. Most scheduled LGPS employers (the major exceptions being Higher and Further Education) will be covered in the first stage. This includes Academies.
- 3.6 The exit payment cap is set at a total of £95,000 with no provision for this amount to be index-linked. Exit Payments include redundancy payments (including statutory redundancy payments) severance payments, pension strain costs – which arise when a Local Government Pension Scheme (LGPS) pension is paid unreduced before a member's normal pension age – and other payments made as a consequence of termination of employment. The cap applies to all exit payments that arise within a 28-day period and the regulations cover the process to follow if an individual has multiple exits from public sector employment within 28 days.
- 3.7 Payments related to death in service or ill health retirement, pay in lieu of holiday and payments made in compliance with an order made by a court or tribunal are not exit payments for the purposes of these regulations. Although statutory redundancy is included as an exit payment it cannot be reduced. If the cap is exceeded, other elements that make up the exit payment must be reduced to achieve an exit payment of £95,000 or less.
- 3.8 The major impact of the regulations will be on LGPS members aged 55 or over who currently qualify for an unreduced pension because of redundancy or efficiency retirement. If the cap is exceeded and a pension strain payment cannot be made we understand that the policy intent is for the member to be forced to take a reduced pension.
- 3.9 This raises serious questions around the inequity of lack of choice as well as the situation of different strain costs between LGPS funds resulting in different amount of reductions being made for the same length of service and pay (currently strain cost is calculated at a local level based on the demographic make-up of the members in each fund). It also appears to be the intent to provide a facility for the member to buy out the reduction. However amendments to LGPS regulations would be required to facilitate this change, plus guidance from the Government Actuary on calculating the pension reduction and operating the buy-out process.
- 3.10 There are circumstances, as set out in HMT Directions, when the cap must be or may be relaxed by a minister or the authority. However most are subject to consent by HM Treasury even if passed by full Council. Employers are required to record and publish information about any decisions made to relax the cap.
- 3.11 A person who receives an exit payment must inform any other public body that employs them about that payment. An employer must ensure that any exit payment does not exceed the cap (unless permitted by the relaxation directions) and where a non-compliant payment is made recover any overpayment subject to a value for money assessment.
- 3.12 This consultation includes voluminous draft regulations, annexes and guidance

The McCloud Case

- 3.13 The SAB has been active on the question of the McCloud court case; this is covered in detail by a report elsewhere on this Board's agenda.

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