

Local Pension Board of the Warwickshire Pension Fund

14 November 2019

LGPS Development update

Recommendation

That the Local Pension Board of the Warwickshire Pension Fund note and comment on the report.

1.0 Introduction

1.1 This report seeks to update the Committee on current and future LGPS developments.

2.0 Scheme Advisory Board update

2.1 The following items have been posted on the SAB website:

- Ministry of Housing, Communities and Local Government has issued the “SF3” report regarding the overall expenditure of the LGPS in England and Wales in 2018/19. At the 31st March 2019 the LGPS held £287bn of investments and had 5.9 million members.
- There was an update on the Competition Markets Authority Order and clarification that the obligation to tender for a fiduciary Management service will not apply to the LGPS. However, there is an obligation to set strategic objectives for investment consultants.
- The Pension Regulator has published its report on governance and administration; see item 6 below.
- SAB has announced Byhira as the provider for a cost reporting system; Byhira is to develop and host a system designed to enable investment managers to evidence cost transparency and provide reporting and comparison tools for LGPS funds and LGPS pools.
- SAB has invited Hymans’ project team to assist the Secretariat in taking forward the next stage of the good governance project.
- The Government Actuary’s Department has been approached by Continuous Mortality Investigation (CMI) to request LGPS mortality data. The SAB supports this in principle but would welcome the views of stakeholders.

3.0 McCloud update

3.1 Background

3.1.1 Earlier this year the government lost its right to appeal the McCloud age discrimination court case at the supreme court.

3.1.2 As a result the LGPS benefit structure is under review but to date no details on what alterations will be made to benefits accrued from April 2014 to remedy the discrimination have been proposed.

3.1.3 Furthermore, the Scheme Advisory Board (SAB) advised pension funds that fund actuaries should value the benefits accrued from 1 April 2014 in line with the current regulations for the purpose of the ongoing 2019 valuation.

3.2 The Fund's Actuary attended a recent meeting with the Local Government Association (LGA) and the Ministry for Housing, Communities and Local Government (MHCLG) at which MHCLG confirmed their expectation that local authority pension funds should state in their actuarial valuation report and / or Funding Strategy Statement how they have made an allowance for the McCloud ruling.

3.3 Officers are speaking with the Actuary about the possible impact on employer contribution rates.

4.0 LGPS Consultation on valuation cycles / managing employers

4.1 Background

4.1.1 This relates to transitioning local government pension funds from a three yearly to four yearly valuation cycle so that the national LGPS cost management valuation and local LGPS valuations are aligned from 31 March 2024 onwards. This change is being brought in to match the same four yearly cycle that applies to the non-funded public service schemes.

4.1.2 The next valuation of assets and liabilities is currently expected to take place at 31 March 2022.

5.0 Exit Payment Cap

5.1 The government first introduced the idea of capping exit payments to £95k in 2015 and have now issued final consultation for introduction later this year.

5.2 The £95k exit cap applies to most public sector employers and simply means the total exit payments which can be made to an employee must not exceed £95,000.00 in total.

- 5.3 For the LGPS this cap also includes any actuarial strain incurred if the benefits are released early on the grounds, for example, redundancy or efficiency etc
- 5.4 HM Treasury (HMT) received approximately 600 responses to the consultation and it is likely they will publish their response in the Autumn. The Local Government Association understands that HMT are to introduce the cap no sooner than 1 April 2020.

6.0 TPR report on governance and administration

- 6.1 The Pensions Regulator (TPR) published its report into the governance and administration risks in public service pensions in September 2019. The report includes the 10 UK local government funds who they engaged with between October 2018 and July 2019.
- 6.2 The report summarises the key findings against the Regulator's Code of Practice 14 both in terms of exceeding and falling short of required standards and will be discussed by the Scheme Advisory Board (SAB) in November.
- 6.3 The TPR website replicates key areas of the report and focusses on the following areas:
- Record keeping
 - Code of Practice 14 – Governance and administration of public service pension schemes
 - Administrators
 - Member communication
 - Internal Dispute Resolution Procedure (IDRP)
 - Pension Boards
 - Employers and contributions
 - Cyber security
 - Internal fraud and false claims
- 6.4 Appendix A provides a link to the website and reproduces for example the findings/recommendations in respect of local pensions boards.
- 6.5 Officers are already reviewing the governance of the Fund and will reflect the findings of the TPR, together with any commentary from the SAB, Hymans alongside our own internal governance review.

7.0 Good Governance in the LGPS

- 7.1 Hymans Robertson issued a report *Good Governance in the LGPS* (Appendix B).
- 7.2 Officers are currently reviewing the governance of the Fund and will be discussing the report and best practice with Hymans as part of this review.

8.0 Financial Implications

8.1 There are no direct implications at this point in time.

7.0 Background papers

None

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The report was circulated to the following members prior to publication:

Local Member(s)

Other member(s)

Extract from the Pensions Regulator Report

“Governance and administration risks in public service pension schemes: an engagement report“

<https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagement-report>

Area of focus: pension boards

Code of Practice 14 – Governance and administration of public service pension schemes

The role of the pension board is to assist the scheme manager with the operation of the scheme. Pension board members are required to have an appropriate level of knowledge and understanding in order to carry out their function.

Findings	Recommendations
<p>Scheme managers have a variety of methods for appointing pension board members and the structure of these boards also varies between funds. In some cases board member rotation is staggered to help preserve knowledge levels. Additionally, some boards have independent chairs, depending on the needs of the individual pension board.</p> <p>We also found a mix of engagement levels amongst pension board members. Some scheme managers are able to call on strong, committed pension boards to assist them with the</p>	<ul style="list-style-type: none">• The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance.• Individual pension board member training and training needs should be assessed and clearly recorded.• The pension board should meet an appropriate number of times a year, at least quarterly.• Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager.• Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.• Regular contact between the scheme manager and chair of the pension board is helpful. An open and

Findings	Recommendations
<p>operation of the fund. Other scheme managers face challenges around pension board members who routinely fail to attend meetings or complete the training they need to meet the required level of knowledge and understanding.</p> <p>The relationships between pension boards and scheme managers varied - where the pension board had a strong relationship with the scheme manager, including a willingness to challenge, we found better-run funds.</p>	<p>auditable dialogue outside of formal meetings can help improve the governance and administration of the fund.</p> <ul style="list-style-type: none"> • The chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency. • Pension board members should be fully engaged and challenge parties where appropriate.