

# **Staff and Pensions Committee**

## **Policy and Regulatory update**

13 September 2021

### **Recommendation(s)**

1. That the Staff and Pensions Committee notes and comments on the report.

#### **1. Executive Summary**

- 1.1 This paper sets out the policies reviewed as part of an annual review or where there have been minor amendments.
- 1.2 The report also seeks to update the Committee on regulatory developments in the pensions arena.

#### **2. Financial Implications**

- 2.1 None.

#### **3. Environmental Implications**

- 3.1 None.

#### **4. Supporting Information**

##### **Admissions and Termination Policy**

- 4.1 The Funding Strategy Statement (FSS) was recently amended to reflect changes to the Local Government Pension Scheme Regulations which allowed local authority pension funds greater flexibility and discretion on the contribution rate paid by an employer and the settlement of a cessation amount for an employer that has left the pension fund. The Pension Fund Investment Sub-Committee approved these changes at their June meeting.
- 4.2 The amendment to the FSS meant the Fund's Admissions and Termination Policy required changing and this report is to advise the Committee that these changes have been completed.

## **Administration Strategy**

- 4.3 This Strategy is subject to a minor amendment which is referred to in the Administration Update report.

## **Governance Compliance**

- 4.4 The Pension Fund's Governance Compliance Statement features as part of the Annual Report confirmation by the Fund as to whether it complies with a requirement or not, and where relevant explains if and why a different approach has been taken.
- 4.5 The publication of the Scheme Advisory Board's review of Good Governance together with the Pension Regulator's review of the Code of Practice has identified areas where the Fund may need to amend its approach.
- 4.6 In addition, further legislation and guidance is expected to be issued either by the Ministry for Housing, Communities and Local Government and/or the Pension Regulator. As and when this occurs, a further report will be brought to the Committee.

## **5. Regulatory Update**

### **Consultation on Special Severance Payments**

- 5.1 The Ministry for Housing, Communities, and Local Government (MHCLG) issued a consultation on draft statutory guidance on the making and disclosure of Special Severance Payments (SSP) by local authorities.
- 5.2 The purpose of the guidance is to limit the use of SSP, noting the government's view that these payments do not represent value for money and should only be considered in truly exceptional circumstances.
- 5.3 Special Severance Payments are stated as being payments to employees, officeholders, workers, contractors and others outside of normal statutory or contractual requirements when leaving employment in public service. Examples include: payments reached under settlement agreement, paid special leave such as gardening leave and payments for retraining.
- 5.4 Statutory and contractual redundancy payments do not constitute SSP, nor payments made to compensate for ill-health, injury, or death. However, pay or compensation in lieu of notice and pension strain payments arising from employer discretions to enhance pension benefits may be a SSP.
- 5.5 This means there could be implications where employers exercise their discretion to waive early retirement reductions on voluntary retirement (e.g., compassionate grounds), flexible retirement etc.

- 5.6 If an SSP is made employers should consider lower cost alternatives, public perception of the payment and the setting of possible precedents. They should also consider the impact of SSP including legal advice on the prospect of defending a claim at tribunal, payments aren't made to avoid management action or unwelcome publicity.
- 5.7 If a SSP is made it requires that the personal approval and sign off of the Chief Executive Officer is documented with a clear record of the Leader's approval, and the guidance makes it clear that the Section 151 Officer and Monitoring Officer must be able to justify such payments.
- 5.8 Warwickshire County Council contributed to the response on that consultation by West Midlands Employers.

### **Cost Management Mechanism**

- 5.9 The Cost Management Mechanism (the mechanism) was introduced following the Hutton review with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs.
- 5.10 This would ensure that the anticipated risks of the rising cost of pensions would be fairly shared between employers and employees. The mechanism not only introduced a ceiling but also a floor so that if costs reduced then changes would be required to increase costs back to a fixed cost.
- 5.11 So, in 2016 when the mechanism was first utilised contrary to what was expected it was the floor that was breached and not the ceiling, resulting in improved benefits.
- 5.12 The recommendations were:
- Removal of tier 3 ill-health benefits, with tier 2 being the minimum
  - Introduction of death in service entitlement of £75,000
  - Enhanced early retirement factors
  - Recommendations around changes to employee contribution bands.
- 5.13 These recommendations were placed on-hold pending an assessment of the cost of the McCloud settlement.
- 5.14 HM Treasury (HMT) has asked the Governments Actuary Department (GAD) to review the mechanism to see if it is working as intended.
- 5.15 GAD concluded the mechanism failed to meet a number of key objectives and that it can lead to "intergenerational unfairness and result in perverse outcomes such as an increase in benefits to members whilst at the same time having to increase employer contribution rates," and made several recommendations to HMT.
- 5.16 HMT has in turn released a consultation on changes to the mechanism which they propose to take effect from the 2020 cost management valuations:

- To remove any allowance for the legacy (i.e., final salary) schemes in the mechanism (although it is proposed to include past service of the 2014 / 2015 schemes in the mechanism)
- To widen the corridor beyond which a breach occurs from 2% of pay to 3% of pay.
- Add an economic check so that changes will only be implemented to the benefits if the breach of the corridor would still have occurred had the changes in economic assumptions been considered.

5.17 Officers will keep the Committee apprised of any developments.

## 6. Timescales associated with the decision and next steps

None

### Appendices

None

### Background Papers

None.

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

Local Member(s): n/a

Other members: Councillors Jenns and Gifford