

Staff and Pensions Committee

5 October 2022

Pensions – Regulatory and Policy Update

Recommendations

1. That the Committee notes and comments on the updates contained in this Report.
2. That the Committee authorises the Strategic Director for Resources to update the Administration Strategy Statement, and (in consultation with appropriate persons) the Governance Policy Statement.

1. Executive Summary

- 1.1 This Report sets out the Pension Fund's policies that have been reviewed as part of an annual process. Any significant changes to a policy will be noted in the body of this report.
- 1.2 This Report also provides a regulatory update of issues that have arisen in the Local Government Pension Scheme (LGPS) arena.

2. Financial Implications

- 2.1 None

3. Environmental Implications

- 3.1 None

4. Supporting Information

Admissions and Termination Policy

- 4.1 This policy has been reviewed by Hymans Robertson, the Fund's Actuary, which has made suggested changes to the Policy. However, Hymans are also in the process of restructuring the Funding Strategy Statement with some supporting 'satellite policies'. A couple of suggestions were: to state who in the Fund has the delegated authority to exercise the discretion to agree to a guarantee over a bond, and to make it clear how the administering authority

can process retirements/leavers, etc. covering any 'membership' during which an admission agreement is not in place.

- 4.2 It is therefore recommended that changes to the Admission and Termination Policy are more appropriate to consider and implement later in the year as part of the wider FSS review.

Administration Strategy

- 4.3 The Administration Strategy requires minor technical updates to reflect the use of I-Connect, changes to procedures following the change in the receipt of member data from employers and to reference Member Self -Service (MSS) which is now available to members.

Conflicts of Interest Policy

- 4.4 We are currently working with the legal team to create a new policy that covers members, officers and the Local Pension Board in one document. We expect to bring this document back to Committee in December 2022.

Governance Policy Statement

- 4.5 The Governance Statement requires updating to ensure it complies with the requirements of the UK Stewardship Code. Additional information on the governance arrangements of the Border to Coast Pension Partnership, and Fund Training will be included. In addition, the delegation of functions will be reviewed to ensure that this reflects the current constitutional delegations. The Statement will be presented to the Committee in December, once it has been approved by the Strategic Director for Resources (in consultation with appropriate persons).
- 4.6 The Committee is asked to note that this Statement may require further changes once the Scheme Advisory Board (SAB) releases the results of their Good Governance Review.

Ill Health Retirement Risk Review by Hymans Robertson

- 4.7 The Fund's Actuary provided the Fund with a general overview of the considerations surrounding the risk to the Fund of ill health early retirements and how this risk can be managed and mitigated. Hymans summarised the various risk mitigation options available at a high level to facilitate further discussions and support the Fund in reaching a decision.
- 4.8 Hymans presented the Fund with a number of different options including a pay-as-you-go option, as well as self and external insurance, but Fund Officers have concluded that the present 'expected budget' or status quo approach in which all employers in the Fund pay for an expected cost of Ill Health Retirements via a small element of their contribution rate, was still the most appropriate approach, therefore no change is recommended.

Regulatory Update

- 4.9 The Chancellor of the Exchequer has confirmed that the state pension triple lock will be reinstated from next April. **The triple lock** was suspended on 16 September 2021 over concerns that it would have produced an unaffordable rise in the next year. The triple lock for 2023 is likely to be based on the September 2022 consumer price index, which is expected to be around 10 per cent.
- 4.10 The **cost cap** is part of the package of measures following Lord Hutton's review of public sector pensions in 2011. Its stated aim is 'to ensure affordable and sustainable public sector pensions' and it is enshrined in legislation via the Public Service Pensions Act 2013.
- 4.11 The current target cost is 19.5% of pay. A breach would occur if the cost fell to less than 17.5% or rose above 21.5%. The action to be taken in the event of a breach, involves changes to benefits and/or contribution structure to bring the cost back to the target cost
- 4.12 The cost cap is a complex process managed by the Government Actuary's Department (GAD). At its core, a target scheme cost is determined using GAD assumptions. Legislation requires action if this target cost is breached by +/- 2% of pay.
- 4.13 The cost cap mechanism was paused by the Government in light of the McCloud judgement. However, following the conclusion of the McCloud consultation, and the Government's confirmation of their preferred approach for remedying McCloud, the cost cap valuation was re-started.
- 4.14 GAD has now published the results of the updated **valuations** which include McCloud costs. The results confirm that after the inclusion of McCloud the cost is within the permitted +/- 2% of pay. Therefore, there will be no changes to member benefits and/or contribution rates as a result of the 2016 cost cap valuation.
- 4.15 The SAB has introduced a new sub-committee called the Compliance and Reporting Committee. This new committee replaces the CIPFA Pensions Panel and will report to both SAB and Chartered Institute of Public Finance and Accounting (CIPFA). Its workplan for the year will include:
- Funding Strategy Statement guidance update
 - Annual Report Guidance
 - Audit Issues (including consideration of separate pension fund accounts but immediately to consider a draft letter for the Board to send to DLUHC following the next meeting)
 - Knowledge and Skills framework
 - Communication on pension fund accounting (IAS19 v LGPS method)

- Review guidance on administration, communications and governance
- 4.16 On 13 June 2022 the SAB published the LGPS's scheme annual report for 2021. Highlights from the report include:
- total membership grew by 1.08 per cent from 6.160 million to 6.226 million.
 - total assets increased to £342 billion - a rise of 23.4 per cent.
 - local authority net return on investment from 1 April 2020 to 31 March 2021 was 20.56 per cent - reflective of market conditions.
 - a positive cash-flow was maintained overall, including investment income.
 - over 1.8 million pensioners were paid.
 - COVID-19 significantly impacted life expectancy - with a drop of 0.9 years and 0.5 years for males and females respectively (2019 figures versus 2020).
 - total management charges increased by £196 million, an increase of 12.9 per cent - primarily driven by a rise in investment management charges, while administration, oversight and governance costs remained broadly stable.
- 4.17 The Pension Regulator's (TPR) Single Code of Practice, has no go live date as yet but, following TPR's interim response to the consultation outcome, it is expected to be laid before Parliament and implemented by the autumn.

The new Code seeks to rationalise 10 out of the 15 existing codes of practice, and capture changes implemented by the Governance Regulations 2018.

Applicable to public and private sector defined contribution and defined benefit schemes, the Code is structured around 5 thematic areas: the governing body, funding and investment, administration, communications and disclosure, and reporting to TPR.

TPR intends that the new Code will ensure greater consistency of the expected standards and best practice for different types of schemes, insofar as legislative requirements permit.

Significant focus is anticipated on climate change, cyber security, stewardship and IT maintenance. The more drastic changes create new obligations for schemes in respect of better management of internal controls and 'effective systems of governance', regular own assessments of risk, and establishing a written framework for remuneration practices.

5. Timescales associated with the decision and next steps

- 5.1 None

Appendices

None

Background Papers

None

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

Local Member(s): not applicable

Other members: Cllrs Jenns and Gifford