Local Government Pensions Committee
Secretary, Jeff Houston

LGPC Bulletin 149 – September 2016

This month's Bulletin contains a number of general items of information.

Please contact Lorraine Bennett with any comments on the contents of this Bulletin or with suggestions for other items that might be included in future Bulletins. LGPC contacts can be found at the end of this Bulletin.

Contents

LGPS England and Wales

FE and SF college area reviews

On 6 September 2016, the LGPC Secretariat met with DfE, the Association of Colleges and UCEA to discuss the engagement between colleges and LGPS funds during the area review process.

Whilst the area review guidance mentions the need for colleges to open early dialogue with LGPS funds, feedback suggests that this is not happening in all cases. LGPS funds are therefore encouraged to initiate communication with colleges where possible.

Information about the colleges in scope of area reviews as well as the timescales, roles and responsibilities within the review process is available on the GOV.UK website here.

It has also been drawn to the LGPC Secretariat's attention that the Association of Colleges website contains information funds may find useful with regard to college mergers. This information includes a list of every college merger in the last 24 years and a document called merger tips, which gives advice on LGPS transfer issues.

Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 [SI 2016/946]

On 23 September 2016, the above regulations were laid before parliament. The regulations will shortly be uploaded onto www.lgpsregs.org but can be viewed on the legislation website in the meantime.

The regulations revoke and replace the LGPS (Management and Investment of Funds) Regulations 2009 [SI 2009/3093] and the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013 [SI 2013/410]. There are transitional provisions covering the revocation of the 2009 regulations which remain in part extant until the date by which the authority has first published its investment strategy statement under new regulation 7. The regulations facilitate the pooling of investment funds and introduce:

- A requirement to publish an investment strategy no later than 1 April 2017 in accordance with guidance issued by the Secretary of State
- A power for the Secretary of State to intervene where an authority fails to comply with its statutory obligations as regards its pension fund or where it fails to act in accordance with guidance

DCLG guidance on preparing and maintaining an investment strategy statement

On 15 September 2016, DCLG published the above guidance to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement (ISS). The new ISS is required by regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016.

An administering authority's duty to prepare, maintain and review their funding strategy statement under Regulation 58 of the LGPS Regulations 2013 is unaffected.

Government response to consultation on revocation of the LGPS (Management and Investment of Funds) Regulations 2009 [SI 2009/3093]

The government has published its response to the consultation on the revocation and replacement of the above regulations.

Scheme Advisory Board – implications for the LGPS of a significant increase in academy employers

The Scheme Advisory Board has commissioned PWC to investigate the implications for the LGPS of a significant increase in academy employers and to develop options to manage those implications. They will present their findings to the SAB in March 2017 in the form of a comprehensive report covering the administrative, actuarial, legal and investment issues relating to the implications identified and options proposed.

Between now and the end of the year PWC will be looking to engage with stakeholders, including administering authorities, to gain their input.

LGPS fund transactions – new requirements from 1 April 2017

On 21 June 2016, the LGPC Secretariat circulated a briefing note containing a draft specification for new transactions data that it was proposed funds in England and Wales would need to be able to report on for financial years from 1 April 2017 onwards.

After circulating that version for comment, a number of areas of concern were raised by LGPS funds and administration software providers. These areas of concerns were the subject of discussions that the LGPC Secretariat held with GAD, DCLG and administration software providers during July and August. On 30 September, Con Hargrave circulated an updated briefing note (appendix 1) containing the final data requirements that funds will be expected to work with their software suppliers to implement in time for 1 April 2017. The updated version incorporates a number of significant simplifications to assist funds in respect of the areas where implementation was thought to be particularly difficult. A tracked changes version was also circulated to highlight the changes made.

Following the simplifications made to the requirements, we understand that the LGPS's administration software providers anticipate being able to amend their systems to hold the new split of data in time for April 2017. However, as the data requirements relate to cash flow data, ultimately funds' payroll, payments and accounting systems – as well as the interfaces between these systems - will also need to be updated in order for funds to provide the cash flow information in accordance with the new requirements.

Another updated version of the briefing note was previously circulated on 22 September 2016. However, this version did not incorporate all the necessary amendments and so funds are asked to ensure that they act upon the version circulated on 30 September 2016 (dated 28 September 2016) instead, see appendix 1.

HMRC

Finance Act 2016

The Finance Act 2016 received royal assent on 15 September 2016. The Act reduces the lifetime allowance for the tax years 2016/17 and 2017/18 to £1million. It also introduces the new lifetime allowance protections, namely Individual Protection 2016 and Fixed Protection 2016.

Data submission to HMRC for 2015/16 Pension Saving Statements

On 20 September 2016, Lorraine Bennett forwarded an email from HMRC confirming that they are prepared to accept scheme data regarding pension savings statements for 2015/16 on an excel spreadsheet rather than through the scheme's Event Report. All other scheme events for 2015/16 must be submitted via Pensions Online.

If authorities wish to use the spreadsheet method, please let Teresa Bartram at HMRC know and confirm that you also understand that late filing penalties may be due if the information is not provided by 31 January 2017.

Further information about the data requirements and submission process was included in Lorraine's email.

Pension schemes newsletter no. 81

HMRC published issue 81 of their pension schemes newsletter, covering:

- The tax treatment of serious ill health lump sums
- Event report
- Relief at source annual returns of individual information for 2015 to 2016
- Secondary annuities
- Lifetime allowance
- Annual allowance calculator
- Pension flexibility and pension scams

In particular, HMRC have launched a beta version of their new annual allowance calculator to help pension scheme members work out how much annual allowance they have used. The calculator has been launched as a beta version as it will be reviewed and improved in response to feedback from members and scheme administrators. You can provide feedback using the feedback option directly on the GOV.UK pages or by emailing HMRC at pensions.businessdelivery@hmrc.gsi.gov.uk putting 'Annual allowance calculator' in the subject line of your email. An email about the new calculator was sent to funds by Con Hargrave on 28 September 2016.

The on-line application process for lifetime allowance protections has received 17,453 applications from the launch on 28 July 2016 to 18 September 2016. Individuals applying for protection will be able to log on to their Personal Tax Account at any time and save their online service protection summary page as a pdf. The summary page has been updated to include the individual's name, national insurance number and the pension scheme administrator's reference number.

Other News and Updates

Exit Payment Cap and Recovery update

The government have provided the LGA with the following update on the exit payment cap and recovery legislation:

Exit Cap

There will be a further consultation this autumn on regulations for the £95,000 exit payment cap; the regulations will therefore not be in force in October as originally anticipated. Following this consultation it is hoped that regulations will be published and in force early next year.

Exit Payment Recovery

The recovery regulations for those earning £80,000 or more who leave public sector employment and return within a year are expected to be published and in force this year, subject to being passed by both Houses of Parliament under the affirmative process.

Government response to the further consultation on exit payment reform

The government has recently responded to the further consultation on exit payments confirming that it intends to proceed with plans for further reform.

Summary of the proposals

- a maximum tariff for calculating exit payments of three weeks' pay per year of service. Employers could apply tariff rates below these limits
- a ceiling of 15 months on the maximum number of months' salary that can be paid as a redundancy payment. Where employers distinguish between voluntary and compulsory redundancies there may be a case for maintaining a differential by applying a lower limit. Likewise, where employers offer voluntary exit packages that are not classed as redundancies there may be a case for applying a different maximum. Employers could apply lower limits, as some do at present.
- a maximum salary on which an exit payment can be based. As a starting point the government will expect this to align with the existing NHS scheme salary limit of £80,000
- a taper on the amount of lump sum compensation an individual is entitled to receive as they get closer to their normal pension age
- action to limit or end employer-funded early access to pension within exit packages. As part of an overall package the government will consider proposals appropriate to each workforce, including action to:
    - cap the amount of employer funded pension 'tops ups' to no more than the amount of the redundancy lump sum to which that individual would otherwise be entitled
    - remove the ability of employers to make such top ups altogether, or offer greater flexibility to employers as to the circumstances in which they are available
    - increase the minimum age at which an employee is able to receive an employer funded pension top up, so that this minimum age is closer to or otherwise linked more closely with the individual's normal pension age in the scheme in which they are currently accruing pension benefits or to which they would be entitled to belong if they were accruing benefits

Who is in scope?

- current and future public sector employees
- the major workforces covered by existing statutory compensation schemes and other contractual exit arrangements. These are the Civil Service, NHS, Local Government, Teachers, Police, Firefighters and (taking account of the unique nature of the occupation) Armed Forces
- those covered by any new compensation schemes set up for public sector employees
- in other areas, and for smaller public sector workforces, the government would encourage reforms consistent with the principles set out in this response
- devolution: the policy would extend to all employments where compensation policy and practice is within the competence of the UK government. The Scottish government, Welsh government and Northern Ireland Executive would determine if and how they wanted to take forward similar arrangements in relation to devolved bodies and workforces.

Transitional arrangements

The government will consider the case for protection for those with exits formally agreed on terms that applied before new workforce exit compensation arrangements come into effect. The government expects the details of such protection will form part of the agreements reached by the relevant department with each workforce in scope of the reforms.

Timing

The response confirms that the government expects departments to produce packages consistent with the framework above and consult on these where appropriate.

The government will expect departments to produce these proposals within three months of the publication of the response (i.e. by 26 December 2016) and to have completed negotiations and made the necessary amendments to exit arrangements within nine months of the publication of the government response (i.e. by 26 June 2017). Given that the compensation arrangements and employer-funded early access to pension are both contained within statutory instruments for the LGPS this will be a challenging timetable.

Transfers between club schemes with a gap in active membership of more than five years

In bulletin 145, we included an article ('Public Service Pensions Forum – transfer calculations') describing an issue we had asked the public service pensions forum to consider regarding the calculation of an individual's transfer value where a member:

a) retains a final salary link under schedule 7 of the Public Service Pensions Act 2013, because the member had not had a gap in active membership of public service pension schemes of more than five years, but
b) the transfer itself would be a non-club final salary transfer because the gap between the "sending scheme" and the "receiving scheme" was more than five years (the transfer would therefore not meet the requirements of paragraph 4.4 of the club memorandum).

The example above may arise where the transfer is paid from Scheme A to Scheme C, and where the member had been a member of Scheme B in between A and C (including where the Schemes A and B were both LGPS Funds and the member had not elected to aggregate benefits from Scheme A to Scheme B).

At the public service pensions forum in July 2016, this issue was discussed and the group agreed that transfer communications between public service pension schemes should prominently identify when the member joined the "receiving scheme" in order that the "sending scheme" can determine whether or not the transfer should be calculated on a club or non-club basis.

Within the club memorandum, reference to "sending scheme" and "receiving scheme" should, for the Local Government Pension Scheme, be interpreted to mean "sending administering authority" and "receiving administering authority". This supports our understanding that where an LGPS fund makes a transfer to another club scheme with a gap of more than five years between the date of leaving the sending LGPS Fund and joining the other club scheme this would always be calculated on a non-club basis. This is regardless of whether or not the member had another period of LGPS membership in-between, which would have meant that the gap between the *schemes* in the widest meaning would actually be less than five years. We will request that the club memorandum be updated to reflect our understanding.

The Pensions Ombudsman (TPO)

As of 1 September 2016, the Pensions Ombudsman Service has changed its name to The Pensions Ombudsman, or TPO when abbreviated.

The new name is similar in style to its main partner organisations, The Pensions Regulator (TPR) and The Pensions Advisory Service (TPAS) so will provide clarity for the public when they look for advice, guidance and resolution of pension complaints.
TPO's work and remit will remain the same.

Anthony Arter, Pensions Ombudsman said, "This name change will help to simplify what is a muddled and unnecessarily complicated customer journey when it comes to pensions related disputes. By adopting a similar branding style to that of our partner organisations, the public will be clear on who to approach if they have a pension problem."

Lifetime ISA updated design note

HM Treasury has published an updated technical note, which confirms the design of the Lifetime ISA (LISA) following detailed discussions with the industry since the scheme was announced. It provides an update to a technical note published at the Budget 2016.

The LGA is moving

On the 28 October 2016, we will be temporarily moving to our offices in Farringdon to allow refurbishment works to take place at Local Government House. The refurbishment of Local Government House is expected to last for nine months with the latest estimated date for our return to be in August 2017. Our new address in Farringdon will be:

Layden House
76-86 Turnmill Street
London
EC1M 5LG

Training

Spaces are available for the each of this year's 'Fundamentals' sessions in London, Leeds and Cardiff. More details are contained at the links below:

London	Day 1	6 October
	Day 2	1 November
	Day 3	29 November
Leeds	Day 1	18 October
	Day 2	9 November
	Day 3	6 December
Cardiff	Day 1	25 October
	Day 2	15 November
	Day 3	14 December

Save the date - the LGPS Trustees' Conference will be held on 29-30 June 2017 in Bournemouth. Details to follow.

Legislation

United Kingdom

Acts	Reference Title
2016/24	Finance Act 2016

SI	Reference Title
2016/946	The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016
2016/931	The Pensions Act 2014 (Consequential Amendments) Order 2016

Useful Links

LGA Pensions page

LGPS E&W member website

LGPS 2015 members' website

LGPS Advisory Board website

LGPS Regulations and Guidance website

LGPS Discretions lists all the potential discretions available within the LGPS in England and Wales.

LGPS Discretions lists all the potential discretions available within the LGPS in Scotland.

Recognised Overseas Pension Schemes approved by HMRC and who agreed to have their details published.

The Timeline Regulations for Final Salary Scheme

The Timeline Regulations for Career Average in England and Wales

Pensions Section Contact Details

If you have a technical query, please email query.lgps@local.gov.uk and one of the team's LGPS pensions advisers will get back to you as soon as possible.

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