

# LGPC minutes via Teams

Meeting held on 7 September 2020

## PRESENT

Cllr John Fuller	Chair, LGA
Cllr Alan Waters	LGA
Cllr Richard Wenham	LGA
Cllr Phil Murphy	LGA
Cllr Adam Paynter	LGA
Cllr Iain Malcolm	LGA
Cllr Joanne Laban	LGA
Mr Jeremy Hughes	MHCLG
Mr David Murphy	NILGOSC
Ms Kimberly Linge	SPPA
Ms Linda Welsh	SPPA
Mr Kevin Gerard	Technical Group rep

## Secretariat

Ms Lorraine Bennett	LGPC
Ms Rachel Abbey	LGPC
Ms Elaine English	LGPC
Mr Jeff Houston	LGPC

## 1. INTRODUCTION FROM NEW CHAIR

The new Chair, Cllr John Fuller [JF] welcomed the members to the first virtual meeting and outlined the protocol for the meeting.

JF asked the Secretariat to write to Cllr Byron Rhodes on behalf of the Committee extending their thanks to him for his contributions to the LGA.

JF welcomed three new members to the Committee:

Cllr Joanne Laban (Enfield – Conservative)  
Cllr Iain Malcolm (South Tyneside – Labour) and  
Cllr Oliver Ryan (Tameside – Labour).

## **2. APOLOGIES**

Apologies were received from Cllr Goronwy Edwards – LGA, Cllr Oliver Ryan – LGA and Ms Rachel Brothwood – SAB representative.

No declarations of interest were declared.

## **3. MINUTES**

The minutes of the previous meeting held on 3 February 2020 were agreed.

## **4. MATTERS ARISING**

Lorraine Bennett [LB] informed the Committee that due to COVID-19, the video for members about transferring out has been delayed. It will be taken forward next month and will be discussed at the next Communications Working Group meeting in a couple of weeks. LB also pointed out the post meeting update highlighted in red on page 3 of the minutes. The estimates cost of equalising survivor benefits across the public sector is £3.5bn, the estimated cost to the LGPS is £1.1bn.

## **5. LGPC BUDGET**

LB presented the confidential key points from Paper B.

The LGA pensions team provides an advisory and training service to LGPS administering authorities across the UK which is funded by subscription and training income. Due to COVID-19, training income for the 2020/21 year will be lower than predicted, but training costs have also reduced. Subscription charges are banded based the size of each fund.

The Secretariat has recruited a dedicated member of the team to work on LGPS Scotland. Scottish funds have agreed to a two-fold increase in subscription rate and the Scottish Public Pensions Agency [SPPA] have agreed to pay an annual fee to fund this additional service.

The Secretariat is asking for a 2% increase in subscriptions from administering authorities in England, Wales and Northern Ireland this year.

Sufficient reserves need to be maintained to cover redundancy costs of the Secretariat team of seven in accordance with the LGA severance policy.

JF thanked the Secretariat for the vital work they produce, especially during the pandemic and asked the Committee to agree the 2% increase in subscriptions.

The Committee approved the increase in subscriptions and the budget without dissent.

### **Agreed:**

## **6. SAB UPDATE [E&W]**

Jeff Houston [JH] presented the key points from paper C.

A virtual meeting of the SAB took place on 25 August at which the board discussed the following points.

### **Good Governance**

Draft papers on how the recommendations set out in the [Phase II report](#) are to be implemented are due to be completed by the end of September 2020. The Board will consider the drafts and then look at process and timing of implementation.

### **Responsible Investment guidance**

On 24 February, SAB published a statement in response to the consultation on Part 1 of the draft responsible investment guidance. The statement confirmed the Board's decision to defer the proposed Part 1 draft guidance until the position on fiduciary duty and the Supreme Court judgment in the Palestine Solidarity Campaign Ltd had been resolved. It was agreed that Part 2 of the guidance continue which is to produce an A to Z of responsible investment. Responsible investment is a complex area and there are multiple acronyms, standards, suppliers and methods of measurement. The online guide will explain those acronyms, include explanations and case studies from users of suppliers.

It was also proposed that that a Responsible Investment Advisory Group which would represent all scheme stakeholder be established.

JF asked whether the guidance would be a neutral glossary and not advice. JH confirmed it would provide facts only – what is this and who uses it?

Cllr Alan Waters [AW] welcomed this guidance noting that responsible investment and changes in investment strategy to accommodate it are common topics at Norfolk Pension Fund Committee meetings.

## **McCloud judgment**

JH summarised the proposals in the ongoing consultations to remove age discrimination from the LGPS and other public service pension schemes.

System changes will be needed to enable LGPS administering authorities to calculate benefits correctly in the future. There will also be a significant exercise to review and recalculate benefits for leavers since 1 April 2014. Lower than expected pay rises since 2014 mean that most scheme members will not see an increase in their LGPS benefits as a result of the change.

Primary legislation is required to effect changes in the unfunded schemes. The legislation is not expected to be in place before April 2022. The Scheme advisory Board will push for earlier LGPS regulation changes in its response to the MHCLG consultation. It is estimated that it will take up to nine months for pension administration systems to be updated to reflect the changes. Early publication of the regulations will allow this system development work to begin earlier.

JH confirmed that the Government had announced that the cost cap process will now restart. The Board cost cap process will restart after HM Treasury publishes details of how the McCloud judgment will be accounted for. There will be no immediate changes to employer contribution rates in response to the change in regulations. Any increase in costs will be taken into account when employer contribution rates are set after the next valuation. David Murphy [DM] noted that the cost management process would present communication challenges. It may be simpler to communicate the changes associated with the 2016 and 2020 cost cap assessments at the same time. JH stated that this proposal had been submitted to Treasury however, Treasury still want to keep the two separate.

## **95K Cap**

JH advised that regulations for capping public sector exit payment were published on 21 July and will come into force 21 days after they have been approved by the houses of parliament and the legislation is made. The cap is expected to be in force by the end of the calendar year. Higher earners and scheme members with long service may be affected by the cap if they are made redundant. The change will make restructures more difficult where voluntary redundancy with unreduced pension can no longer be offered.

MHCLG published a [consultation on reforming local government exit pay while the meeting was taking place](#). The consultation seeks views on proposed changes to the LGPS and compensation regulations in England and Wales to introduce the exit payment cap and further reform of exit payments.

JF asked whether there is any evidence of exits being brought forwards in advance of the introduction of the cap. JH acknowledged that some exits planned for 2021 may be moved to 2020.

Kevin Gerard [KG] asked whether different rules applied in Wales, specifically whether strain costs may not be covered by the cap. JH confirmed that strain costs would be included. The waiver process for exits in Wales is much less complicated than in England.

Phil Murphy [PM] asked whether exit payments would be recovered from those who return to local government employment. JH confirmed that the Government plans to introduce the 'clawback' provisions at a future date.

Full details of the proposed change to strain cost calculation and how benefits will be reduced are not yet available. Administering authorities are likely to have to produce complex calculations manually until administration software systems have been updated to reflect the changes.

## **7. REGULATIONS UPDATE ENGLAND AND WALES**

LB presented the key points from paper D.

### **COVID-19 and the LGPS**

The Secretariat has produced various resources to support administering authorities during the COVID-19 pandemic. These include regularly updated news pages, FAQs for employers, administrators and members and employer webinars, all of which have been well received.

The Secretariat has surveyed administering authorities to assess how they are coping with the impact of the pandemic to assist and tailor support to them. Summaries of the survey results are available on the SAB website. The results show a high level of confidence in the administering authorities' ability to continue to pay pensions and calculate new pensions. Administering authorities have reported concerns about a small number of employers' ability to pay employer contributions. The survey responses confirm that administering authorities are very concerned about major scheme changes due to the McCloud judgment, the introduction of the exit payment cap and the pensions dashboard requirements.

The SAB is collecting death data from administering authorities on a monthly basis. They will use the data to help identify a pattern of deaths and to indicate a potential second wave. The SAB is working with two funds and their actuaries to identify the number of excess deaths.

### **McCloud Implementation group**

The SAB McCloud implementation group aims to assist administering authorities with the challenges of implementing and communicating scheme changes. The group is facilitated and chaired by the Secretariat.

Administering authorities must gather service data from employers in order to run an underpin calculation for scheme members who will be in scope of the revised protection. The group has produced a suite of documents to assist administering authorities to gather that data. They have recommended a deadline of 31 March 2021 for collecting the data. Further guidance will be needed in respect of employers who no longer exist or are unable to provide the data that has been requested.

The Secretariat will be meeting with pension administration software suppliers and MHCLG in September to discuss the system changes that will be required to implement the remedy.

### **Exit Credits**

A valuation is undertaken when an employer exits the scheme. They must make a payment to the pension fund if they are in deficit. From 2018, if they are in credit, the employer may receive an exit credit which must be paid within three months of the exit date.

The introduction of exit credits caused a problem in situations where there was some form of risk sharing in place. MHCLG has now introduced changes to the LGPS that allow an administering authority to take risk sharing into account when they assess whether an exit credit is due, and the level of that credit. The period for payment has been extended from three to six months after the exit date. Employers may use the IDR process if they wish to contest a decision not to pay an exit credit, or to dispute the level of payment made.

Cllr Richard Wenham [WH] enquired whether this was an absolute administering authority discretion? LB stated that each administering authority must state its policy in the funding strategy statement and must give due consideration to the relevant factors in making individual decisions.

Jeremy Hughes [JHu] stated that two contractors who will not receive an exit credit will challenge the decision through judicial review. A preliminary hearing will be held in November 2020, with a judgment expected in Spring 2021.

### **Valuation Cycle – employer contributions and flexibility on exit payments enacted**

On 26 August 2020, MHCLG published a second partial response to the Local valuation cycle and the management of employer risk consultation. The response confirms that the LGPS regulations will be amended to allow greater flexibility on exit payments and the ability to review employer contributions between valuations. Under a deferred debt arrangement an exiting employer will continue to pay secondary contributions. The changes were laid on 27 August 2020 and come into force on 23 September 2020.

Administering authorities will need to publish their policies on deferred debt arrangements, spreading exit payments and reviewing employer contributions in their funding strategy statement. The SAB will set up a working group to produce guidance for administering authorities.

### **Survivor benefits**

A written statement on survivor benefits and public service pensions was published on 20 July by the Chief Secretary to the Treasury. This was in connection with a Teachers' Pension Scheme Employment Tribunal case concerning the difference in survivor benefits paid to a male or female survivor of a female scheme member. Guidance is awaited from MHCLG on what action should be taken in relation to past and future survivor benefits.

### **Pensions tax relief**

HMT published Pensions tax relief administration: call for evidence on 21 July 2020. Membership of the LGPS costs more to individuals who earn less than the tax threshold because they do not benefit from tax relief in a relief at source scheme. The LGA will respond to the consultation before the closing date of 13 October 2020 and post their response on the website.

### **Pensions Dashboards**

On 8 April 2020, the Money and Pensions Service published a progress update report on the Pensions Dashboard Programme. They intend to issue updates every six months.

DM mentioned two other regulatory considerations. The [DWP consultation: Taking action on climate risk: improving governance and reporting by occupational pension schemes](#) and the planned increase to the minimum pension age from 55 to 57 from 2028.

## **8. REGULATION UPDATE SCOTLAND**

The Committee noted the key points from paper E, which was presented by Kimberly Linge [KL].

### **LGPS (Increased Pension Entitlement) (Miscellaneous Amendments) (Scotland) Regulations 2019**

These regulations came into force on 1 March 2020 and are effective from 8 April 2019. They also apply to earlier schemes. These regulations allow overpayments identified in the GMP reconciliation exercise to be converted to scheme awards, meaning that pensions in payment will not be reduced. This is the same approach that was adopted in 2009. It offers the easiest and best solution to increase pensions that have been overpaid.

### **LGPS (Miscellaneous Amendments) (Scotland) Regulations 2020**

These regulations were laid on 20 February and came into force on 31 March 2020 allowing Scottish ministers to substitute a different fund maintained by an administering authority for a scheme employer.

### **Cost cap GAD**

HM Treasury announced that the pause on the cost control element of the 2016 valuations should be lifted. HM Treasury Directions are awaited.



## **SPPA consultation – statutory valuations**

SPPA consulted on changes to the local valuation cycle and the option of suspending an employer's liability to pay an exit payment in 2019. The consultation concluded in March 2020. Not all respondents were in favour of changes to the valuation cycle. Changes to the exit payment arrangements would allow smaller organisations to pay a large exit payment over a longer period.

An interim report was provided to the Scottish Pensions Liaison Group and Investment Group for their comments. The report has also been shared with the LGPS SAB (Scotland) Secretariat for information.

### **Statutory underpin**

SPPA published their consultation on changes to the statutory underpin on the SPPA website. The consultation will conclude on 23 October 2020.

## **9. REGULATIONS UPDATE NORTHERN IRELAND**

The Committee noted the key points from paper F, which was presented by DM.

### **LGPS Regulations**

On 5 May 2020 the LGPS (Amendment) Regulations (Northern Ireland) 2020 were made. They make minor technical corrections which do not change policy and have a minor impact on administrative practices.

### **Governance**

NI LGPS Scheme Advisory Board met in March and McCloud was discussed. They considered a different approach from that proposed in England and Wales and Scotland. They decided against a more administratively simple solution. A formal consultation will be issued in September.

## **10. UPDATE FROM TECHNICAL GROUP**

KG gave the Committee a verbal update indicating that there was not much to add as most had already been covered in Papers C & D.

KG praised the Secretariat for doing a great job on the Dashboard and all the other work during COVID-19. JF agreed.

The Technical Group are working closely with CIPFA to ensure consistency in reporting standards. Planned meetings have been delayed due to COVID-19.

The Technical Group requested that the Chair of each regional Pension Officer Group collects the death data and forwards it to the Secretariat.

## **10. TRAINING AND CONFERENCE UPDATE**

Elaine English [EE] reported that the Fundamentals Programme will not be delivered in person this year due to COVID-19. Instead, three, one-hour webinars will be held in October to cover the headline topics. The Secretariat has secured the usual sponsors for the Fundamentals programme to participate in the webinars: Gary Delderfield of Eversheds Sutherland, Steve Lee of 91 [formerly Investec] and Annemarie Allen of Barnett Waddingham.

EE stated that the annual Governance conference may also be virtual this year, but a final decision will be taken by the end of September.

All face to face practitioner training that was planned for this year has been cancelled and replaced with virtual training. Take-up for the virtual training has been exceptional. All training events will be delivered virtually for the foreseeable future. In person training will resume in the future, but this may run in tandem with online courses.

Interactive online bite-size training for employers has been launched on the employer section of the lgpsregs.org website. Six modules so far have been produced with more to follow.

## **11. ANY OTHER BUSINESS**

## **12. DATE OF NEXT MEETING**

**2 November 2020**

\*\*\*