

	Pension Board 23 March 2021
	Report from the Director of Finance
LGPS Update	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	Seven <ol style="list-style-type: none"> 1. Public Sector Exit Payments Regulations 2020 2. Restriction of Public Sector Exit Payments: Guidance on the 2020 Regulations 3. Good Governance: Phase 3 Report to SAB 4. LGPC Bulletin – November 2020 5. LGPC Bulletin – December 2020 6. LGPC Bulletin – January 2021 7. LGPC Bulletin – February 2021
Background Papers:	<ul style="list-style-type: none"> General Purposes Committee – 15 March 2021 – Severance Approvals
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel, Director of Finance Ravinder Jassar, Deputy Director of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

- 1.1 The purpose of this report is to update the committee on recent developments within the LGPS regulatory environment and any recent consultations issued which have would have a significant impact on the Fund.

2.0 Recommendation(s)

- 2.1 The Committee is asked to note the recent developments in the LGPS.

3.0 Detail

Exit Payments Cap

- 3.1 The Restriction of Public Sector Exit Payments Regulations 2020 implementing the £95k cap on exit payments came into force on 04 November 2020. An exit payment includes redundancy payments (including statutory redundancy payments), severance payments, pension strain costs that arise when a Local Government Pension Scheme (LGPS) pension is paid unreduced before a member's normal pension age, and other payments made as a result of termination of employment.
- 3.2 On 12 February 2021, the Government issued Exit Payment Cap Directions which disappplies parts of Public Sector Exit Payments Regulations 2020 with immediate effect. The directions are attached in Appendix 1.
- 3.3 HM Treasury has issued guidance on the Directions which is attached as Appendix 2. It states:
- 3.4 'After extensive review of the application of the Cap, the Government has concluded that the Cap may have had unintended consequences and the (2020) Regulations should be revoked. HMT Directions have been published that disapply the Cap until the Regulations have been revoked.'
- 3.5 The guidance also confirms that the government will legislate again to tackle unjustified exit payments in the future.
- 3.6 Therefore, for exits from 12 February 2021, LGPS administering authorities must pay qualifying scheme members an unreduced pension under Regulation 30(7) of the LGPS 2013 regulations. Scheme employers will be required to pay the full strain costs in relation to those unreduced benefits, as notified by the administering authority (LB Brent in the case of the Brent Pension Fund). Employers should not make cash alternative payments to either the scheme member or the administering authority.
- 3.7 On 25 February 2021 The Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 were made and laid before parliament and will come into force on 19th March 2021. These regulations confirm the effect of the disapplication Directions made on the 12th February 2021 but are not retrospective.
- 3.8 The regulations contain an obligation for employers to make payments to employees who left during the period between the original regulations coming into force (4th November 2020) and the date of these regulations coming into force.
- 3.9 MHCLG have confirmed that there will be no changes to the LGPS or compensation regulations following the recent consultation on Reforming local government exit pay¹. A further consultation will be conducted before any such changes are made.

¹ <https://www.gov.uk/government/consultations/reforming-local-government-exit-pay>

- 3.10 In light of the exit cap regulations, it was necessary to alter the early retirement pension strain factors to ensure they were still fit for purpose. On 7th December 2020, the General Purposes Committee (GPC) agreed to adopt the new methodology and draft factors provided by the Government Actuaries Department (GAD).
- 3.11 With the dis-application of the £95k exit cap, the GPC will be considering a recommendation to revert to the previous fund specific factors on 15 March 2021.

Pensions in Payment and Lifetime Allowance

- 3.12 LGPS pensions are adjusted each April in line with the cost of living. The increase is measured by the September to September adjustment in the Consumer Price Index (CPI) and is applied to pensions from the following April. The increase that will be applied from 12 April 2021 is 0.5%.
- 3.13 In the Budget on 03 March 2021, the Chancellor announced that the Lifetime Allowance (LTA) – the maximum amount (of pension plus lump sum) that can be drawn from a pension scheme without triggering an extra tax charge – will, instead of being increased each year in line with the annual (September) CPI figure, be frozen at its current level (£1,073,100) until April 2026.

Good Governance Project

- 3.14 As a result of significant cuts to local government funding over the last decade, the pooling of LGPS Investments and the increasing complexity in scheme benefits and administration, the Scheme Advisory Board (SAB) commissioned Hymans Robertson to examine the effectiveness of current LGPS Governance Models and to consider alternatives and enhancements to existing models which can strengthen LGPS Governance going forwards.
- 3.15 Results of the first two phases of the 'Good Governance Project' were reported in 2019.
- 3.16 On 15 February 2021, the LGPS Scheme Advisory Board (SAB), published its final report (phase 3) on Good Governance and Action Plan for submission to the Ministry of Housing, Communities and Local Government (MHCLG) for consideration.
- 3.17 The Phase 3 report provides further detail on the following recommendations:
- **General:** MHCLG to produce statutory guidance to establish new governance requirements, a single named officer who is responsible for the delivery of LGPS activity for a fund.
 - **Conflicts of Interest:** all administering authorities should publish a conflicts of interest policy that is specific to the LGPS.
 - **Representation:** publish a policy on how scheme members and non-administering authority employers are represented on its committees.

- **Knowledge and Understanding:** Introduce a requirement for key individuals, including officers and pensions committees, to have the appropriate level of knowledge and understanding. Also a requirement to publish a training strategy that sets out its policy on delivery, assessment and recording of training plans.
- **Service delivery for LGPS function:** make it compulsory to publish a roles and responsibilities matrix and an administration strategy.
- **Compliance and Improvement:** Funds must undergo a biennial Governance Review assessed by the Scheme Advisory Board (SAB) and to consider establishing a peer review process.

3.18 The full Phase 3 report is attached in Appendix 3. The Fund believes it is compliant with many of the recommendations and it awaits MHCLG statutory guidance. The Fund will produce an action plan of areas on non-compliance and report to the Pension Board at a later meeting.

2021/22 employee contribution bands

3.19 Table 1 below shows employee contribution bands, which will be effective from 1 April 2021.

Table 1: Contribution table England and Wales 2021/22

Band	Actual pensionable pay for an employment	Main section contribution rate for that employment (%)	50/50 section contribution rate for that employment (%)
1	Up to £14,600	5.5	2.75
2	£14,601 to £22,900	5.8	2.9
3	£22,901 to £37,200	6.5	3.25
4	£37,201 to £47,100	6.8	3.4
5	£47,101 to £65,900	8.5	4.25
6	£65,901 to £93,400	9.9	4.95
7	£93,401 to £110,000	10.5	5.25
8	£110,001 to £165,000	11.4	5.7
9	£165,001 or more	12.5	6.25

Minimum Pension Age

- 3.20 The normal minimum pension age is the minimum age at which most pension savers can access their pensions without incurring an unauthorised payments tax charge (unless they are taking their pension due to ill-health). It is currently age 55.
- 3.21 The government has confirmed its intention to legislate to increase the normal minimum pension age to age 57 on 6 April 2028.

3.22 A consultation² on this change was launched on 11th February and runs until 22nd April 2021. This consultation is not LGPS specific.

4.0 Financial Implications

4.1 This report is for noting, so there are no direct financial implications.

5.0 Legal Implications

5.1 Not applicable.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance

² <https://www.gov.uk/government/consultations/increasing-the-normal-minimum-pension-age-consultation-on-implementation>