



**Pensions Fund Sub-Committee**  
29 May 2019

**Report from the Chief Finance Officer**

**LGPS Update**

<b>Wards Affected:</b>	ALL
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
<b>No. of Appendices:</b>	<ol style="list-style-type: none"> <li>1. Exit payments cap - LGPC Secretariat Summary</li> <li>2. SAB Advice Note</li> </ol>
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>▪ N/A</li> </ul>
<b>Contact Officer(s):</b> (Name, Title, Contact Details)	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

## 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 recent consultations issued by the Ministry of Housing, Communities and Local Government 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 government first announced plans to cap exit payments in the public sector in 2015. On 10 April 2019 HM Treasury (HMT) launched a consultation on draft regulations, guidance and Directions to implement the cap.

- 3.2 The exit payment cap is set at £95,000 and redundancy payments (including statutory redundancy payments), severance payments, pension strain costs – which 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 consequence of termination of employment are included in the cap.
- 3.3 Payments related to death in service or ill health retirement, pay in lieu of holiday and payments made in compliance with an order made by a court or tribunal are not counted in the definition of exit payments. There are certain circumstances when the cap must be or may be relaxed.
- 3.4 The statutory redundancy element of an exit payment cannot be reduced. Should the cap be exceeded, other elements that make up the exit payment must be reduced to achieve a payment below the cap.
- 3.5 It is unclear what the impact on a LGPS member will be if the cap is exceeded and the exit payment includes pension strain cost. It is understood that the policy intent is for the member's pension benefits to be reduced to the extent that the exit payment cap is not breached. A summary of the consultation produced by the LGPC Secretariat is attached in Appendix 1.
- 3.6 The government is currently seeking views on the proposed draft regulations and the consultation closes on 3 July 2019. The fund is also awaiting further analysis from LGA's Local Government Pension Committee and the Scheme advisory board.
- 3.7 Brent officers, in consultation with the Fund's advisors, will prepare a response to the consultation on behalf of the Brent Pension Fund before the consultation closes. Members of the committee are invited to note this development and offer any comments they may have.

### **Valuation Consultation**

- 3.8 MHCLG launched a consultation about changes to the valuation cycle and the management of employer risk for LGPS funds in England and Wales. The consultation closes on 31 July 2019.

The five key proposals covered by the consultation are:

- 3.9 Transitioning local fund valuations from 3 yearly to 4 yearly, so that the national LGPS cost management valuation and local LGPS valuations are aligned from 31 March 2024 onwards.
- 3.10 Giving funds the power to carry out 'interim' valuations between formal valuation dates, and adjust employer contribution rates upwards or downwards to reflect changing circumstances (with the 'trigger points' for the interim valuations subject to statutory guidance).
- 3.11 Allowing funds more flexibility around the way in which they manage employers that exit the LGPS, by spreading cessation debt repayments or setting up

private sector style 'deferred debt' arrangements to ease employer concerns over affordability.

- 3.12 Amending LGPS Regulations to allow exit credits to be reduced to nil where a pass-through arrangement is in place.
- 3.13 Removing the requirement for further education, higher education and sixth form college corporations in England to offer new employees access to the LGPS.
- 3.14 The fund is awaiting further analysis from LGA's Local Government Pension Committee and the Scheme advisory board in relation to this consultation.
- 3.15 Brent officers, in consultation with the Fund's advisors, will prepare a response to the consultation on behalf of the Brent Pension Fund before the consultation closes. Members of the committee are invited to note this development and offer any comments they may have.

### **McCloud Case**

- 3.16 On 21 December 2018 it was reported that the Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015, were unlawfully discriminatory. This case is known as the 'McCloud case'.
- 3.17 Following the judgment, on 30 January 2019, the Government published a written statement that paused the HMT cost management process for public service pension schemes, pending the outcome of the application to appeal the McCloud case to the Supreme Court. This was supplemented by the publication of the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment and Savings) Directions 2019, on 15 February 2019.
- 3.18 On 8 February 2019, Scheme Advisory Board (SAB) confirmed it had no option but to pause its own cost management process pending the outcome of the McCloud case. As a result, no changes were made to benefits which had been planned in respect of the LGPS cost management process from 1 April 2019. This situation will be reviewed once McCloud is resolved which is not expected for some months.
- 4.0 On 21 December 2018 it was reported that the Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015, were unlawfully discriminatory. This case is known as the 'McCloud case'.
- 4.1 On 14 May 2019, the scheme advisory board (SAB) published an advice note covering the implications of McCloud/Cost Cap in relation to the 2019 fund valuations. This is attached to this report in Appendix 2. The fund is currently analysing the implications of the advice note and will work with the Fund actuary and investment advisor to manage the potential ongoing risks for the fund.

## **5.0 Financial Implications**

This report is for noting, so there are no direct financial implications. However, the outcome of the consultations could have financial implications for the Fund, in particular the exit cap and the outcome of the McCloud case. Further work will be done with the Fund actuary to analyse the implications and report back to the committee.

## **6.0 Legal Implications**

6.1 Not applicable.

## **7.0 Equality Implications**

7.1 Not applicable.

## **8.0 Consultation with Ward Members and Stakeholders**

8.1 Not applicable.

## **9.0 Human Resources**

9.1 Not applicable.

### **Report sign off:**

**Conrad Hall**  
Chief Finance Officer