

# Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 17 October 2018.

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**Subject: Local Government Pension Scheme**

## **Summary statement:**

This report updates the Local Pension Board on changes affecting the Local Government Pension Scheme.

## **Recommendation**

It is recommended that the Local Pension Board note this report.

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**Portfolio**

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**Overview & Scrutiny Area**

## **1 Background**

- 1.1 The Local Government Pension Scheme (LGPS) continues to develop and undergo changes and is also affected by changes to overriding legislation.

## **2 The Local Government Pension Scheme (Amendment) Regulations 2018**

- 1.2 The career average Local Government Pension Scheme (LGPS) was introduced on 1 April 2014.

- 1.3 On 27 May 2016 Ministry for Housing, Communities and Local Government (“MHCLG”) (then Department for Communities and Local Government) issued a consultation, which provided for:

- The implementation of the reformed Fair Deal for Staff Pensions Provisions into the LGPS Regulations;
- The Introduction of additional ways in which a scheme member can access their Additional Voluntary Contribution ‘pots’, as part of the Government’s ‘Freedom and Choice in Pensions’ policy; and
- Technical amendments to provide clarifications that have been requested by Practitioners and to improve the operation of the regulations.

- 2.1 On 19 April 2018 the Local Government Pension Scheme (Amendment) Regulations 2018 (“the Amendment Regulations) were laid before Parliament and came into force on 14 May 2018. The Regulations can be found at:

<http://lgpslibrary.org/assets/si/ew/SI2018-493.pdf>

- 2.2 In addition to making the technical amendments previously consulted on the main changes made by the Amendment Regulations were:

- For members who left the Local Government Pension Scheme before 1 April 2014 to elect to receive payment of their deferred benefits from age 55, with reductions, without having to obtain the consent of their former employer.
- Changes to options available to member with a pre-2014 Additional Voluntary Contribution “pot”.
- The requirement to refund any surplus on a Scheme employer ceasing its participation in the Local Government Pension Scheme.

- 2.3 The proposed changes included in the consultation that were not taken forward in the Amendment Regulations were:

- Fair Deal – in its response to the consultation MHCLG confirmed that they will not be introducing Fair Deal into the LGPS at this time. However, they state they still remain committed to introducing Fair Deal into the LGPS and intend to commence a consultation on new proposals for achieving this by the end of the year.

- Additional Voluntary Contributions – the Uncrystallised Funds Pension Lump Sum (UFPLS) option will not be introduced directly into the LGPS Regulations due to the substantial administrative complexities that would be created.
- Aggregation – the proposal to end the automatic aggregation of pension accounts where a member with a deferred benefit becomes active again is not being taken forward. MHCLG concluded that introducing these changes would not be consistent with Schedule 7 of the Public Service Pensions Act 2013.

### **3. 2017 LGPS annual report**

- 3.1 At the 2018 PLSA local authority conference, Cllr Roger Phillips, the chair of the scheme advisory board for the LGPS in England and Wales (SABEW), launched the 2017 annual report for the English and Welsh scheme. The aim of this Annual Report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. Continually improving key information about the Scheme as a whole is one of the top priorities of the Board. This report aggregates information supplied in the 90 fund annual reports, as at 31 March 2017.

Some of the key highlights of the report are listed below:

- The total membership of the LGPS grew by 394,000 (6.9%) to 5.6m members in 2017 from 5.3m.
- The total assets of the LGPS increased to £263bn (a change of 21.2%). These assets were invested in pooled investment vehicles (52%), public equities (32%), bonds (7%), direct property (3%), as well as other asset classes (6%).
- The Local Authority return on investment over 2016/17 was 19.5%. This was reflective of the better market conditions during the year.
- The scheme maintained a positive cash-flow position overall. Scheme income was lower than total scheme outgoings by £484m. However, this was excluding investment income of £4,000m.
- The funds all received unqualified external financial audit certificates from the scheme's external statutory auditors.
- Over 1.6m pensioners were paid over the year. Fewer than 39 formal complaints about scheme benefit administration were determined and less than 13% were upheld by the Pensions Ombudsman.

### **4. Governance and administration survey findings published**

- 4.1 The Pensions Regulator (TPR) have published their 2018 report on the findings of the governance and administration survey (undertaken in November and December 2017) of public service pension schemes. In total 191 of the 207 public service pension schemes completed the survey. This equates to a 92% response rate, covering 98% of all membership.

- 4.2 The report sets out how TPR have interpreted the findings including, their expectations of those involved in running the schemes and what they will be doing over the next year to address the issues identified in the report. It accompanies the

full research report, which shows the responses to all survey questions.

The commentary in the report highlights a number of points that LGPS administering authorities should be aware:

- The survey supports TPR's existing assessment that the top risks are scheme governance, record-keeping and internal controls.
- The survey shows that 34% of LGPS administering authorities hold fewer than four pension board meetings a year. In TPR's view, this provides inadequate opportunity for pension boards to carry out their role effectively and raises concern about the quality of governance.
- Only 45% of active members in the LGPS received their annual benefit statements by the statutory deadline.
- The summary report states 'The survey shows signs that process improvements have stalled in some Local Government schemes. This group was also the one that was least likely to respond to the survey and we are concerned about the risks of disengagement. Because of the specific challenges faced by Local Government schemes, we expect to focus casework activities on the LGPS in the coming year.
- The report concludes by saying, Scheme managers should be aware that we are more likely to use our enforcement powers this year. Where we open cases, we will work with the schemes involved to resolve gaps in their risk and breach of law processes. When considering action or setting fines, we will take into account a party's co-operation with us, and their efforts to put things right. For example, those who fail to report breaches to us quickly could receive a higher penalty for a breach, and an additional penalty for a failure to report.

## **5. TPO and TPR establish information sharing agreement**

- 5.1 The Pensions Ombudsman (TPO) and The Pensions Regulator (TPR) have agreed to share information with a view to mutually enhancing their knowledge and understanding of developing pension issues.

This information sharing agreement aims to protect pension scheme members, endorse and support the achievement of higher standards across the industry and ensure a safe pensions saving environment.

The Agreement came into effect in March and gives details of the principles both organisations will follow when sharing information about complaints and concerns. It acknowledges that both organisations have shared goals and an overlap in responsibilities. The Agreement between the two bodies means that information concerning pension complaints handled by TPO may be shared with TPR, helping to inform its investigation processes. Similarly, following an investigation of a pensions scheme, TPR may advise TPO of any concerns it has regarding that scheme's failure to implement policy and procedural changes as recommended by TPR.

## **6. Lifetime Allowance 2018-19**

The Standard Lifetime Allowance for 2018-19 has been confirmed as £1,030,000 by The Finance Act 2004 (Standard Lifetime Allowance) Regulations 2018 [SI 2018/206].

## **7. Scheme Valuations and Cost Management Process for Public Service Schemes.**

- 7.1 In a Written Ministerial Statement on the 6th September 2018, the Chief Secretary to the Treasury, Elizabeth Truss, announced details of the quadrennial valuation of the public service pension schemes, including the Local Government Pension Scheme (LGPS) in England and Wales. A link to the statement is here:

<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS945/>

- 7.2 For unfunded schemes, initial results show that their members will get improved pension benefits over the period April 2019 to March 2023. Early indications are also that the amount employers pay into the unfunded schemes will need to increase.
- 7.3 In the case of the funded LGPS, the scheme advisory board (SAB) operates an additional cost cap process. In accordance with agreed policy, this will be allowed to complete before the HM Treasury cost control mechanism is tested. It is not therefore possible at this stage to give any indication of what the outcome might be.

If the SAB's cost control process results in a recommendation that changes to the scheme should be made, and the government accepts the SAB's recommendations, the Treasury's cost cap process will be adjusted to take the new scheme design into account.

- 7.4 The Chief Secretary also announced in the technical annex to a letter to Frances O'Grady at the TUC that the scheme valuation under Treasury's cost cap process should be moved from the current triennial to a quadrennial cycle in line with other public service scheme valuations. It is important to note that these amendments relate to the scheme valuations being undertaken by GAD for cost management purposes and not to local valuations undertaken by the fund actuaries. Discussions with Ministry of Housing, Communities and Local Government and actuarial advisers will take place shortly to consider the implications of this change for local fund valuations.