Scheme, legal, regulatory and Fund update

Organisation	Subject	Link	Status	Comments	Risk Ref
HM Treasury	Reforms to public sector exit payments.	https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector Hymans summary	**Updated**	**Scope** At present, employees who are 55+ and made redundant receive their pension unreduced (without exception). The planned reforms mean this will no longer be the case. The reforms are somewhat complex but broadly speaking, the reforms will put a cap on all employer costs (pension and non-pension) at £95k when an employee leaves on grounds such as a compromise agreement or redundancy (for eligible LGPS employers only). For redundancy, the statutory redundancy payments must be paid so pension benefits would need to be adjusted to ensure the £95k is not breached (although some exceptions apply) or severance payments removed. Even for members with costs incurred of less than £95k, a certain amount of offsetting with still apply leaving members with potentially 4-5 options available to them, including choosing to defer receipt of the pension. **Progress of reforms** HM Treasury's final consultation on this topic closed on 3 July 2019 and on 21 July 2020, HM Treasury issued a response to the consultation confirming they were planning to press ahead albeit with some unnamed changes and no stated implementation date. However, proposed regulations called *Restrictions to Exit Payments in the Public Sector Regulations* have gone before the Commons and Lords and are back before the Commons awaiting a vote (with no debate) this could happen anytime from now onwards. On 7 September 2020, MHCLG produced a consultation on how this would apply specifically to Local Government, including to Local Government Pensions; this consultation closes on 9 November – this consultation is not looking to re-open HMT proposals but instead determine how these apply although MHCLG go beyond the HMT reforms.	PEN021

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				Draft amendment to various regulations (Compensation Regulations and LGPS Regulations) are due in September, as are draft GAD factor changes. **Comment and impact on the Fund** The process and communications with members will be much more complicated under the reforms. At the time of writing (early October), there is lack of confusion within the industry over the details of the reforms and officers are waiting for further information to become available. The risk of error appears higher than expected because these reforms are being rushed through which leaves little time to update systems. There is little time for MHCLG to change secondary legislation, GAD to produce new factors, system providers to amend their systems and, finally, for the Fund to amend processes. There is a risk that officers will be required to apply the reforms before they have the tools to do so, potentially meaning stock-piling cases or doing manual workarounds (increasing risk). There appears little in the way of mitigations that are possible against this.	
MHCLG	Fair Deal Consultation	https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection	No change since the last meeting	No movement for some time on this. Officers have responded to the consultation but have yet to hear anything further from MHCLG. The next step is likely to be either another consultation or the introduction of legislation. Due to the Parliamentary backlog, further progress may not be seen until 2021.	PEN040
	Changes to the Local Valuation Cycle and the Management of Employer risk Consultation	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf	**Updated**	**Scope:** 1). Amendments to the local fund valuations from the current three-year (triennial) to a four-year (quadrennial) cycle. 2). A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles. 3). Proposals for flexibility on exit payments. 4). Proposals for further policy changes to exit credits 5). Proposals for policy changes to employers required to offer LGPS Membership (allowing further education, sixth form colleges to close entry to new employees)	PEN044

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				Reform progress: This consultation covered the following areas and closed on 31 July 2019, with officers responding before that date. The Government is responding and implementing changes in stages: Section 4: The Government passed amendments to the LGPS Regulations which applied from 20 March 2020, but with retrospective effect to 14 May 2018, broadly giving Funds discretion over whether an exit credit was paid and for how much. Section 3: In early September 2020, the Government issued a consultation response and new legislation which broadly falls into three areas: a). Allowing reviews of employer contribution rates inter-valuation: This can be either Fund or employer led and are only possible in certain circumstances. The Fund needs to have a policy on this and amend the Funding Strategy Statement (FSS) b). Spreading exit payments: More explicitly allows what is already current practice in many Funds (including WPF) of allowing cessation debt to paid over a period of time. Our cessation policy (referenced from the FSS) already covers our approach to this (see section 7) c). Deferred debt agreement: Essentially allows an employer to cease to active members but remain 'on risk' and just have Again, we already have a policy on this (see section 9 of our cessation policy), but this will be needed to be amended to reflect the new regulations. **Fund impact and comment:** Section 4: Officers amended the Fund's cessation policy which was approved by Committee on 26 March 2020. The consultation period with employers closed with no comments of note (just clarification questions) and hence the new cessation policy is now in place. The latest changes have created a Fund discretion although this is being challenged nationally by some employers and Funds and advisers are still unclear on how it should go about using its discretion. There is risk that whatever determination the Fund makes will be open to challenge.	

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				Section 3: For a). we will need to amend our FSS, consider how this should work best and communicate out to employers accordingly. For b). and c), officers need to consider what changes to the existing cessation policy (sections 7 and 9) are needed for us to be compliant (unfortunately there was no time to do this prior to the September Committee)	
The Department of Work and Pensions (DWP)	Pension dashboard project	https://pensionsdashboardproject.uk/industry/about-the-pensions-dashboard-project/	No change since the last meeting	Discussions are still going on at a national level. Recent discussion suggests an implementation timeframe of mid 2020s	PEN038
Financial Reporting Council	Proposed revision to the UK Stewardship Code	https://www.frc.org.uk/investors/uk-stewardship-code	No change since the last meeting	The Financial Reporting Council (FRC) published the revised Stewardship Code on **24th October 2019** which sets substantially higher expectations for investor stewardship policy and practice. Officers will now review Fund compliance to the new code and begin drafting a new Statement of Compliance for review by the FRC, but 31 March 2021.	None
Scheme Advisory Board (SAB)	Academies' review	http://www.lgpsboard.org/index.php/structure-reform/review-of-academies	No change since the last meeting	SAB commissioned PwC to produce a report on "Options for Academies in the LGPS" and the report was published in May 2017. The report identified and highlighted problems/issues experienced by stakeholders. No recommendations were made in the report, although the potential benefits of new approaches to the management of academies within the LGPS were highlighted. The proposals were wide ranging from minor alterations to academies being grouped together in a single LGPS Fund. SAB's work is still on-going and Bob Holloway from the LGA previously stated that a wide range of options in both work streams are still be considered. For example, changing the administration arrangements or putting academies into their own Fund etc. However, a consultation will be released on any changes proposed before they are put into force.	None

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	Cost cap mechanism & McCloud case	Summary by Hymans Robertson following release of the consultation (ADD LINK)	**Updated**	On the 16 July 2020, the Government released a much-anticipated consultation on changes to the Scheme relating to McCloud. Early analysis suggests and increased impact on liabilities of around £5m-£25m (around 0.2%-1%), although the percentage impact will vary by employer. Officers are currently analysing the likely administrative impact of the final legislation if it goes ahead as proposed. Hymans Robertson have produced a useful summary (see left) **McCloud analysis** Officers have spent some time estimating the number of potential cases, and the specific members, although this was not complete in time for this meeting:	PEN042

Status	Estimated eligible for reform (a)	Estimated number where underpin may apply (b)	Rectified
Active	c23,000	c23,000	45%
Deferred	4,000	100-200	0% (not possible yet)
Pensioners (from deferred status)	290	5	0% (not possible yet)
Pensions (from active status)	TBC	TBC	0% (not possible yet)
Annual Allowance, aggregations Transfers, survivors benefits etc	No analysis undertaken		

Most of data need for active members is being collected as part of the i-Connect rollout. For other categories, and separate approach will be needed.

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				Officers are spending some time analysis which members are more likely to be affected so that they can focus resource on correcting records for those members, potentially reducing the amount of time significantly. Some further analysis will continue in anticipation of the current proposal being finalised.	
	Goodwin Case		**New**	In a similar vein to the McCloud case, a new case is now on the horizon called the **Goodwin** case. It is another discrimination case affecting public service schemes including the LGPS, this time on the grounds of sexual orientation. Again, although the funding costs are small, this will be a further administration and communication burden to address. It is still early stages in terms of the nature of the subsequent reform which will be required so officers are unable to assess the impact at present until further details emerge.	PEN056
	Tier 3 employers review	http://www.lgpsboard.org/index.php/board-publications/invitation-to-bid	No change since the last meeting	Covers those Fund employers with no tax raising powers or guarantee (excludes academies). SAB is keen to identify the issues and risks related to these employers' participation in the LGPS and to see if any improvements/changes can be made. There are currently two concurrent phases of work involved – collating data and identification of issues. SAB will then assess the risks to Funds and consider next steps. In 2019, Aon Hewitt produced a detailed report which is available on the SAB website which outlines its finding on the identification of issues but the report doesn't make any specific recommendations. SAB is yet to advise what actions it will take following receipt of the report.	None
	Good Governance Project (formerly known as the Separation Project)	http://www.lgpsboard.org/images/PDF/BoardFeb18/PaperBItem50218.pdf	No change since the last meeting	Hymans-Robertson, on behalf of the SAB, has released its report on phase II which outlines a number of specific recommendations. Hymans Robertson and SAB are now moving towards Phase III of the project. In preparation of this, a series of roundtable discussions took place where there is an opportunity to give feedback to the Phase II proposals.	None

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				Again, due to legislative delays caused by COVID-19, we understand the timeframes for this project have been postponed.	
	Guidance Project	http://www.lgpsboard.org/images/PDF/BoardFeb18/PaperBItem50218.pdf	No change since the last meeting	The Guidance project will identify regulations which may be better placed within statutory guidance and to both propose the necessary amendments and assist HMCLG with the drafting of guidance. This project is at an early stage and no further information is available at this time.	PEN039
	Data Project	http://www.lgpsboard.org/images/PDF/BoardFeb18/PaperBItem50218.pdf	No change since the last meeting	The SAB describes this project as: The Data project will aim to assist administering authorities in meeting the Pension Regulators requirements for monitoring and improving data and include the identification of scheme specific conditional data and the production of guidance for authorities and employers. No further information is currently available from the SAB. However, the SAB did consult on a common set of data points for the part of the project relating to scheme specific conditional data over the last couple of months before deciding to postpone implementation until 2019, in time for the 2019 tPR Scheme Return.	None

Note: Wiltshire Pension Fund updates are now shown in a separate table.