

Administration and regulatory updates**Responsible Officer** Debbie SharpEmail: debbie.sharp@shropshire.gov.uk

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1. Summary

The report provides Pension Board members with the latest administration and regulatory updates affecting the Local Government Pension Scheme (LGPS).

2. Recommendations

- 2.1** Pension Board members are asked to note the contents of this report and;
- 2.2** to agree, with or without comment, the Fund's approach to updating the data improvement plan.

REPORT**3. Risk Assessment and Opportunities Appraisal****3.1 Risk Management**

By ensuring the guidance and legislation mentioned in this report is followed and adhered to, risks to the fund are minimised. A risk register is kept and updated in line with council corporate policy.

3.2 Human Rights Act Appraisal

The recommendations contained in this report are compatible with the Human Rights Act 1998.

3.3 Environmental Appraisal

There is no direct environmental, equalities or climate change consequence of this report.

3.4 Financial Implications

Currently there are no direct financial implications arising from this report.

4. Administration topics covered at Pensions Committee since the last Pensions Board meeting

- 4.1** In addition to this report the Pensions Board are advised to note the pensions administration reports submitted to the Pension Committee on 24 July 2019 and the 4 October 2019.

5. Latest consultations – an update

At the previous Pension Board meeting on 3 May 2019, an update was given about a number of ongoing consultations affecting the LGPS. The latest position of these consultations is below:

5.1 Exit payments

A consultation about restricting exit payments in the public sector was published on 10 April 2019 and closed on 3 July 2019. A response sent by officers raised concerns that, as currently drafted, there is not enough detail about how these restrictions will interact with LGPS regulations, particularly around the inclusion of pension strain under the cap. Also, without changes the restrictions are likely to affect workers who have long service but are not highly paid. HM Treasury received approximately 600 responses and have reported that their response will be released in the autumn of 2019. They have further confirmed that there is no intention to introduce the cap before 1 April 2020.

5.2 New fair deal

The Ministry of Housing, Communities, and Local Government (MHCLG) consultation on 'Fair deal – strengthening pension protection' in the LGPS closed on 4 April 2019. This was summarised at the previous Pension Board meeting. MHCLG have since confirmed that work on the policy is ongoing. A further update is expected at the national LGPS technical group on 10 December 2019. The consultation documents and the response sent by the Local Government Pension Committee can be found on the scheme consultations page of www.lgpsregs.org

5.3 The Implementation of new late retirement factors

In July 2019 MHCLG issued updated late retirement guidance following the consultation which closed on 17 April 2019. The new guidance and factors applied from 1 September 2019. The new methodology removes the 'cliff edge' effect which reduced the value of LGPS benefits held by members who were over their normal pension age when the factors last changed in January 2017.

5.4 Changes to the local valuation cycle and the management of employer risk

A further consultation was published on 8 May 2019 by MHCLG asking for views on changes to the local valuation cycle and the management of employer risk.

The consultation covered the following areas:

- A change to local fund valuations from the current three-year (triennial) to a four-year (quadrennial) cycle

- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- proposals for flexibility on exit payments
- proposals for further policy changes to exit credits
- proposals for changes to the employers required to offer local government pension scheme membership

The consultation closed on 31 July 2019. MHCLG received around 280 responses. They expect to publish their response towards the end of the year.

6. McCloud and Sergeant Case

- 6.1** As previously reported, the case is about the transitional protections given to members of the judges and firefighter pension schemes when the schemes were reformed in 2015, as part of the public sector pension scheme reforms.
- 6.2** On 20 December 2018, the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified. The government appealed this decision however, the Supreme Court denied the government right to appeal on 27 June 2019. This means that the Court of Appeal's decision is upheld and the case has returned to an employment tribunal for a remedy decision. The outcome of this ruling will increase the cost of the scheme as any remedy must be 'upwards' not 'downwards'. Therefore, the cost management processes paused earlier in the year will need to be re-run once the cost of the McCloud and Sergeant remedy is known. The cost management page of the English and Welsh SAB website contains information on the case:
<http://www.lgpsboard.org/index.php/structure-reform/costmanagement/ccmcloud>
- 6.3** HM Treasury and MHCLG have sent an information request to all LGPS funds asking for data from 2014/2015 to 2018/2019. This is aimed at capturing the number of members with transitional protection where the underpin has bitten at underpin date and where a pensions saving statement was issued in the year. The number of members issued with a lifetime allowance charge and the number of members who have opted out, have also been requested. This information is needed to help with policy planning for the McCloud case and wider pensions tax issues affecting the public sector.
- 6.4** Guidance from Local Government Association (LGA) recently suggested that funds should contact scheme employers to check if individual member hours history from 1 April 2014 is available, if this has not already been given. If the final salary underpin is extended, this information will be needed to work out this benefit for all members who

have service before 1 April 2014. This will be communicated to Shropshire's scheme employers.

7. The Pensions Regulator (TPR) deep dive results

On 19 September, the Pensions Regulator (TPR) published a report on the findings from its engagement with ten local government funds. The engagement took place between October 2018 and July 2019. The report can be found here:

<https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagement-report>

It sums up their key findings against the Regulator's Code of Practice 14 both in terms of exceeding and falling short of required standards within the funds analysed. The Scheme Advisory Board (England and Wales) will discuss the report in detail at their next meeting on 6 November 2019.

7.1 The key findings and recommendations for improvement were in;

- Record keeping
- Internal controls
- Administrators
- Member communications
- Internal dispute resolution procedures
- Pension Boards
- Employers and contributions
- Cyber security
- Internal fraud and false claims

When publishing the findings, TPR stated:

'We carried out this review at a high level based on meetings with scheme managers to understand the challenges they face. The meetings were supplemented by a review of some fund documentation and examples of communications sent to members, prospective members and beneficiaries.'

'It is not a comprehensive evaluation of the funds' operations and is not intended to replace audit requirements, nor is it to be considered as regulatory assurance or an endorsement of the fund by The Pensions Regulator (TPR).'

Pension board members should note the findings in the TPR's report for Board members to demonstrate knowledge and understanding of scheme administration requirements. This will assist scheme managers to secure compliance, and ensure effective and efficient governance and administration of the LGPS. Pension Board members are invited to help officers review the findings of the report.

A high-level commentary on the key four areas highlighted by the report has been provided below. Officers are doing a thorough review of the report against current practices. If this review shows improvements are needed, this will be reported back to the board.

7.2 TPR risk area 1 - Key person risk

'While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the local authority with little interaction between the scheme manager and local authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.'

Fund comment on risk area 1: The fund has all policies required by LGPS rules in place and has taken decisions to ensure that any controls put in place by the local authority do not adversely affected the fund.

7.3 TPR risk area 2 - Pension boards

'Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.'

Fund comment on risk area 2: Engagement of pension board members has been high, demonstrated by the lack of long-term vacancies on the board, no cancelled meetings and regular reporting on issues such as breaches and compliance with scheme regulations. Training has also been undertaken by all board members to increase knowledge and understanding. A recent review shows an increase in knowledge of board members. Frequency of Pension Board meetings is consistent with the board's current terms of reference but should be considered for review.

7.4 TPR risk area 3 - Fraud / scams:

'We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.'

Fund comment on risk area 3: The fund has followed national guidance when dealing with transfer out requests of member benefits. TPR scam warning leaflets and forms produced by the LGPS secretariat are used. Transfer out data requests from third parties are not acted upon.

7.5 TPR risk area 4 - Employers:

'We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally, this was connected to fund resourcing but also related to different philosophies related to taking security over assets.'

Fund comment on risk area 4: The fund reviews employer risk and has recently provided an update to the board on this area. Any performance issues are recorded on the fund's breaches log and the employer contacted with an offer of support to improve.

8. 2019 scheme return data quality scores and data improvement plan

8.1 As part of TPR's scheme return, funds must provide a "data score" in respect of the presence and accuracy of common and scheme specific data. There are eleven key data items considered common to all pension schemes. They are surname and initials, NI number, date of birth, gender, date joined scheme, target retirement date, membership status, date of last status change, address and postcode. TPR outline some scheme-specific data but do not set prescriptive targets as the data is held to be scheme-specific.

8.2 The fund undertook its first data quality review in 2017. This was rerun in July 2019 with the results received in early September 2019. As well as measuring data to work out the scores to be reported to the TPR, the fund also performs extended tests on member data which go beyond TPR requirements. The recent results can be found below.

	2017 data quality score (reported to TPR)	2019 data quality score (to be reported to TPR this year)	2019 data quality score (extended tests)
Common data	92.76%	96.1%	95.9%
Scheme specific data	80.9%	96.2%*	86.2%

*Based on Scheme Advisory Board (SAB) scheme specific data items list issued in July 2019

8.3 There has been an improvement in both the common and scheme specific data scores reported to TPR in 2017. TPR expects that funds with scores under 100% have a data improvement plan (DIP) in place. Officers are updating the current data improvement plan following the latest results, to demonstrate the next steps the fund is taking to improve its data. Priority areas for improvement will be the key data highlighted by SAB as scheme specific which directly relates to TPR data scores, address tracing/verification for gone away records and any data relating to the GMP reconciliation project. Pension board

members are asked to agree, with or without further comment, on the priority areas suggested.

9. Update of Communications Policy

9.1 Regulation 61 of the LGPS regulations 2013 sets out that administering authority must prepare, maintain and publish a written statement setting out its policy for communications with:

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) scheme employers.

The current version of the policy is being reviewed and pension board members and employers will be asked to comment on the updated policy. It is expected the policy will be updated by the end of the year.

9.2 Communication with members affected by the pension tax allowances; the annual allowance and lifetime allowance, is being looked at by officers. A proposal has been made by the fund actuary to provide group presentations, one-to-one guidance sessions and to enable the provision of regulated financial advice at member's own cost, if needed.

10. Employers and annual meeting reminder of dates

10.1 The annual meeting is due to take place on 28 November 2019, 11am to 1pm, in the Council Chamber, Shirehall, Shrewsbury, SY2 6ND. This meeting has been advertised to all scheme members and employers via email, member newsletters and the fund's website. It has also been featured in the latest editions of the InTouch magazine for retired members.

10.2 The employers' meeting is planned for 15 November 2019 from 9am until 1pm. All employers have been invited to the meeting and are strongly encouraged to attend as the meeting will include an update from the actuary about the 2019 valuation. Employers will also receive their new employer contribution rate, to be in place from 1 April 2020.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Item 10 – Pensions Committee, Administration Update - 4 October 2019

Item 13 – Pensions Committee, Administration Update - 24 July 2019

Item 12 – Pensions Board, Administration and Regulatory Update - 3 May 2019

Cabinet Member (Portfolio Holder)

N/A

Local Member

N/A

Appendices

N/A