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Date: 6 November 2020

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My ref
PEN/DS

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Please ask for
Mrs D Sharp
Pensions Services

Dear Sirs,

Consultation on the reform of exit payments in local government

I am pleased to provide a response to MHCLG's consultation on reforming local government exit pay. My response focuses on the Administration of the Local Government Pension Scheme as I am responding in the capacity of Pension Administration Manager for Shropshire Council.

The Shropshire County Pension Fund has 150+ scheme employers and approximately 50,000 members. Not all employers in our Fund will be covered by the changes. This adds further complexity to an already complex area.

Question 1

Are there any groups of local government employees that would be more adversely affected than others by our proposed action on employer funded early access to pension?

More female members are will be affected by the proposed reforms because they make up a greater proportion of the workforce affected by the changes. This proposal will impact those aged 55 or over, it will therefore adversely affect older workers.

LG employees transferred to private companies working on LG service contracts would not be affected and be entitled to unreduced benefits on termination even though the costs of the service would still be chargeable back to a LA.

The proposal around statutory redundancy pay being deducted from the pension strain cost resulting in a lower pension for life, for affected members of the scheme has a greater impact on lower paid workers, who are at the greatest risk of needing income support from the government in this situation. It is accepted by the Government that a greater proportion of these will be women and/or part-time workers. The average annual pension paid from the Shropshire Fund is only £4,869.

- If so, please provide data/evidence to back up your views?

The Government Actuary's Department has already provided some illustrations of the likely effects.

- How would you mitigate the impact on these employees?

To mitigate the full effects of the proposals would be to not dismiss people. I do not feel this will be realistic for LG employers.

This policy will impact on all LG workers aged over 55 in the pension scheme, including those who are lower paid and with a comparatively small pension, a greater proportion of whom are likely to be women and/or part-time workers.

One way to mitigate the impact would be to allow the relaxation of the proposed restriction to enable the employer to pay statutory redundancy pay in addition to the full strain on fund costs, where that would not breach the £95,000 cap.

The proposal introduces a layer of unnecessary administrative bureaucracy disproportionate to the situation with which local authorities and administering authorities will have to deal. It will also be confusing for members of the LGPS.

Question 2

What is the most appropriate mechanism or index when considering how the maximum salary might be reviewed on an annual basis?

The most appropriate mechanism may be to link it to the local government collectively agreed pay awards under the National Joint Council (NJC) for Local Government Services. Using average earnings may also be reasonable to use.

Question 3

Are there any groups of local government employees that would be more adversely affected than others by our proposed ceiling of 15 months or 66 weeks as the maximum number of months' or weeks' salary that can be paid as a redundancy payment?

Shropshire County Pension Fund have no comment.

- If so, please provide data/evidence to back up your views?

Shropshire County Pension Fund have no comment

- How would you mitigate the impact on these employees?

Shropshire County Pension Fund have no comment.

Question 4

Are there any groups of local government employees that would be more adversely affected than others by our proposal to put in place a maximum salary of £80,000 on which an exit payment can be based?

This is a question to be commented on by LG Employers. However, I note that no other part of the public sector has yet implemented reforms in addition to the proposed £95,000 cap. Particularly it has been pointed out that in the Civil Service Compensation Scheme there is a salary cap of £149,820 and the reform proposals put forward by the government

do not seek to alter this. We do not see why a salary limit so much lower is appropriate for local government. The Public sector should be treated equally.

- If so, please provide data/evidence to back up your views?

Shropshire County Pension Fund have no comment

- How would you mitigate the impact on these employees?

Shropshire County Pension Fund have no comment.

Question 5

Do you agree with these proposals? If not, how else can the Government's policy objectives on exit pay be delivered for local government workers?

The original policy objective was to curb excessive exit payments in the public sector. The additional reform was about fairness and consistency across the public sector workforce. Local Government is the only public sector employer to be changed however at this time. These new proposals will impact on all local government employees in two ways, before there has been any wider public sector reform and regardless of salary level:

- by reducing the strain on fund payment by the statutory redundancy payment regardless of the amount of the strain on fund payment; and,
- 2. by removing any entitlement that an employee will have to an employer's discretionary compensation payment (which unlike other parts of the public sector are modest).

They result in a reduced pension going forward for life and only a statutory redundancy payment to support members during a time in which older workers will find it increasingly difficult to find alternative employment.

As previously stated the suggested changes introduce additional administrative burden at a time when other Government changes, because of previous legislative errors, are also increasing Administering Funds workloads. The exit cost cap proposals are complex in themselves before they are combined with the LGPS complex benefit structure.

The proposals are far from simple. It will be difficult for many members to understand each of the options available. Section 4.1 on the draft GAD guidance clearly demonstrate the difficulties that will be faced when implementing the proposals.

The proposals will lengthen the process from an initial quotation to the payment of benefits to the member. The member has more options in addition to the usual conversion of part of the pension to increase the lump sum. Additional cost will also be incurred as all pension administration systems will need to be amended to cope with these complexities plus the issue that they only affect part of the membership. The team at SCPF is not resourced to have to manually calculate these changes.

The second stated objective relates to fairness and consistency across the public sector. As already mentioned, local government has lower severance calculations than the rest of the public sector. However, MHCLG's proposal restricts these further. The proposals for the civil service contain both higher calculation limits and a higher salary cap of £149,820. In this light MHCLG's proposals seem out of line with the consistency objective and seem grossly unfair on LG workers.

Question 6

Do you agree that the further option identified at paragraph 4.8 should be offered?

I agree that the option of deferring pension benefits and receiving a discretionary redundancy payment under the employer's discretionary severance scheme, rather than taking a reduced pension with statutory redundancy pay only, should be offered.

Question 7

Are there any groups of local government employees that would be more adversely affected than others by our proposals?

As in Q 1, all employees over the age of 55 in the LGPS will be affected. Those with long service will be particularly affected because of the interrelationship between strain on pension fund payments and other discretionary and statutory redundancy payments.

Question 8

From a local government perspective, are there any impacts not covered at Section 5 (Impact Analysis), which you would highlight in relation to the proposals and/or process above?

A full impact assessment was not available at the commencement of this consultation. It has since been published but only in draft. That assessment does not identify the real impact that statutory redundancy pay being deducted from the pension strain cost, resulting in a lower pension for life, will have on lower paid and part-time workers – mostly woman.

Question 9

Are these transparency arrangements suitably robust? If not, how could the current arrangements be improved?

The transparency requirements in local government would seem adequate however there seems to be inconsistency with other parts of the public sector or across all workforces covered by these proposals.

Question 10

Would any transitional arrangements be useful in helping to smooth the introduction of these arrangements?

Yes, there should be provision for dealing with those employees already in redundancy/reorganisation situations. This is more a point to be answered by Employers rather than a Pension Fund but restructuring requires statutory periods of consultation with staff and recognised trade unions, this includes providing details of severance packages which of course include information on Pensions to the over 55s. Many employees, including those with long service, will then require 12 weeks' notice of dismissal. Employers will be more aware of the time they require for this process and therefore what transitional arrangements would work best for them.

As the £95,000 cap will come into force before the MHCLG further reforms then, subject to any HMT Directions which provide suitable transitional provisions and waivers, guidance will be required for the interim period between the £95,000 cap implementation and the MHCLG/LGPS further

reform changes as it causes conflict between two sets of regulations and has put Administering authorities in the position that we will be subject to appeal from members when only a reduced pension or deferred pension is offered when under the LGPS regulations currently they have an entitlement to an unreduced pension. Authorities should not have been put in this position.

Question 11

Is there any other information specific to the proposals set out in this consultation, which is not covered above which may be relevant to these reforms?

The stated aims include consistency and fairness across the public sector and so, a comparison with other public sector severance schemes should be undertaken. In local government a balance is achieved between the rules of the Local Government Pension Scheme and local authorities' redundancy policies which provide, in most cases, only a moderate sum to cushion the immediate blow of losing a job. These proposals mean that employees will sadly have to now choose between one or the other.

Question 12

Would you recommend anything else to be addressed as part of this consultation?

As with the £95,000 cap, there should be scope for relaxation of the restrictions, Suggestions include where:

- a. not exercising the power would cause undue hardship;
- b. not exercising the power would significantly inhibit workforce reform;
- c. commitments have legitimately been made by an authority in redundancy/re-organisation processes before the changes come into force;
- d. there is a value for money case.

The draft LGPS Exit Payments Regulations

Regulation 1(4) includes a definition for the Local Government Pension Scheme Regulations 2013. The examples in the GAD guidance however include members' benefits which accrued before 1 April 2014. Regulation 1(4) does not contain a reference to the Local Government Pension Scheme Regulations (Transitional Provisions, Savings and Amendments) 2014 ("the 2014 Transitional Provisions").

If the restrictions on LGPS exit payments, following an exit, are to include benefits which accrued before 1 April 2014, there should be a reference to either the earlier regulations or the 2014 Transitional Provisions.

Regulation 5(4(c) replaces the reference to an actuary appointed by the administering authority with guidance which is issued by the Secretary of State – i.e. GAD guidance. There will not be many instances, but guidance will be used to calculate the strain on the fund for a member's benefits where the member is within the scope of the Schedule to the Public Sector Exit Payments Regulations but are outside of the scope of the Schedule to the draft LGPS Exit Payments Regulations. Regulation 68(2) does not allow for this

possibility after the amendment in regulation 5(4)(c) of the draft LGPS Exit Payment Regulations 2020.

The Retirement Process

The restriction on exit payments will elongate the retirement process for early retirements and redundancies. The members will have more options available. Even though the pension strain calculations are based on pre-conversion benefits, the maximum tax-free cash lump sum the member can receive will be affected by whichever option the member eventually elects to receive. This will put a premium on clear and concise communications between all stakeholders.

It would be useful if there was guidance that explained the different options, which are available to a member, according to the type of employer. There are four possibilities and it would assist members if there was national clear and concise guidance regarding options.

I hope you find this response useful.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Debbie Sharp', with a stylized flourish at the end.

Mrs Debbie Sharp
Pensions Administration Manager