

	<h2>Pension Fund Committee</h2> <h3>22 January 2019</h3>
Title	Managing the cost of the LGPS
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix - 1 Local Government Pension Scheme Advisory Board 21st December 2018
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

The Scheme Advisory Board has developed proposals to improve the LGPS benefits that will result in higher contribution rates for employers. There is expected to be a brief consultation on the proposals during Q1, 2019. Communications with employers and staff is being considered.

Recommendations

The Pension Fund Committee note the proposals from the Scheme Advisory Board and delegate approval to the Director of Finance to respond to the expected MHCLG consultation on the proposed changes to the LGPS.

1. WHY THIS REPORT IS NEEDED

- 1.1 When the 2014 benefits changes were made to the LGPS it was legislated that the costs of providing benefits to LGPS would be reviewed after each triennial valuation and if the costs to employers was expected to move out-with a specified band, that benefits or staff contributions would change. The purpose was to limit changes in costs to employers. Thus, if costs were expected to increase, either future benefits would be scaled back or staff contributions would increase to reduce the impact on employers' contributions.
- 1.2 Rather confusingly in the LGPS, two such costs reviews are undertaken on different basis; by the Scheme Advisory Board (SAB) and HMRC.
- 1.3 The first such review by the SAB has indicated that the future cost of providing LGPS benefits is 19% of salary compared with a target cost of 19.5%. Thus, projected future cost is 0.5% less than target. This cost is designed to cover both employer and staff contributions; initially 13% employer and 6.5% staff.
- 1.4 The attached note from Hymans Robertson outlines the result of the SAB analysis and the next steps.
- 1.5 The SAB having concluded that the future costs of providing benefits are less than the target of 19.5% have reviewed ways to alter the benefits package to return the total cost back to the target. The SAB has proposed the following actions to increase the cost for LGPS employers:
 - a) More generous ill health retirement provision
 - b) A minimum lump sum death in service benefit of £75,000 per member (currently 3 times salary at all salary levels).
 - c) Enhanced early retirement factors for all members who are active on 1st April 2019 in respect of their final salary linked membership only.
 - d) Reduced contribution rates for those on the lower salary bands.
- 1.6 Hymans have estimated that the average employer contribution rate will increase by 0.9% due to the above changes, while for those employers whose staff earn less than £12,000 the increase could be as much as 2.75%. No changes in contribution rates will take place until April 2020 and the above changes will be factored in the 2019 triennial valuation.
- 1.7 For employers participating in the scheme the SAB analysis will be difficult to comprehend as actual costs are massively in excess of the notional costs

calculated by the SAB. For LB Barnet Pension Fund the average primary (ongoing) employer rate at the 2016 triennial valuation rate was 17.9%, that for the Council was 16.9%. These rates ignore deficit contributions and the Council are actually paying 26.9% of salary increasing to 27.9% from April 2019. Academies are paying 23.8%. The approach to cost caps ignore the fact that actual employer rates are increasing year on year and appear both bizarre and detached from reality.

- 1.8 The next step is for the Government to consider the SAB's proposals. If the Government is satisfied, they will consult on the proposals during quarter 1, 2019 with the intention that they be implemented from 1st April 2019.
- 1.9 The short timetable to implement will result in challenges for the administrator (Capita) and payroll providers for each employer. Consideration is being given to how to communicate these changes to Staff, employers and payroll providers.
- 1.10 The Government's own cost cap analysis will be undertaken in 2019. If the changes proposed by SAB are accepted these will be factored into the Government's own review and reduce the likelihood that this will result in further benefit / contribution changes.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The recommendation is for noting. The Council should respond to the consultation so that the Government recognise the flaws in the current approach to cost control.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None – if available, alternatives will be considered when the SAB's proposals are finalised.

4. POST DECISION IMPLEMENTATION

- 4.1 Implementation is a matter for employers and the administrator with the potential to impact on staff retirement decisions.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The proposed changes, if they proceed following consultation, are likely to increase employers' contribution rates from April 2020 impacting on the Council's budget.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 As noted above higher employer's contributions will have budget implications for the Council. A 1% increase in employer pension contribution will cost the council £0.4m. Any increase will require consideration in the councils MTFS and business planning process.

5.3 Social Value

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution (Article 7) – includes Committee responsibilities for actuarial and funding matters, which are relevant to this issue

5.4.2 The Council is required to operate the pension scheme in accordance with the Local Government Pension Scheme Regulations 2013, which will be altered if the Government accept the SAB's recommendations.

The Local Government Pension Scheme Regulations 2013 were amended by the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 to include regulation 116, which provides that the Scheme Advisory Board must obtain a Scheme cost assessment from the Scheme Actuary detailing the overall cost of the scheme and proportion of the cost being met by Scheme employers and members triennially.

5.4.3 Where the overall cost of the scheme is above or below the target overall cost, the SAB may make recommendations to the Secretary of State as to the steps to take to bring the overall costs of the Scheme back to the target overall costs.

5.5 Risk Management

5.5.1 There are no risk management issues.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

5.6.2 As set out in the report from the SAB, the Board has received legal advice in

relation to potential claims for discrimination, especially age discrimination, when formulating its recommendations.

5.7 Consultation and Engagement

5.7.1 Not required.

5.8 Insight

5.8.1 Not used - external report.

6. BACKGROUND PAPERS

6.1 None.