

Local Government Pension Scheme
Scheme Advisory Board

14th January 2019

Rachel Brothwood
Director of Pensions
West Midlands Pension Fund

Dear Rachel

Local Government Pension Scheme

Thank you for your letter of 21st December, you raise a number of important points which as you rightly say directly impact on the quality of service LGPS administering authorities are able to provide to scheme members and a growing number of scheme employers.

Timing and of notice of scheme changes

I fully acknowledge that late notice of and/or limited consultation on scheme changes cause significant difficulties for administering authorities both in terms of having the necessary systems in place and communicating those changes to scheme members.

The timing of consultations and publication of regulations is subject to internal MHCLG processes and parliamentary diary limitations, particularly at this time. Having said that, the situation in May of waiting two years then having a very short period for consultation for regulations that still contained a fundamental flaw is not helpful nor does it provide confidence for future changes.

The SAB has made its views on this situation very clear to MHCLG and continues to press for sufficient advance notice of consultations and for an appropriate time to be provided for consultation. Hopefully the Fair Deal consultation published on 10th January which has a closing date of 4th April (12 weeks) is an indication that longer consultation periods would again be the approach in normal circumstances.

We do try to provide advance notice of change but there will always be occasions when we are aware of consultations being considered or drafted but without any firm knowledge of a publication date or the exact content.

Indeed, continuing to predict the arrival of consultations that fail to appear can have an equally debilitating effect - the best example probably being the changes to exit payments (£95k cap and redundancy limits) which have been 'coming soon' for over 3 years. We are still being told they are imminent but have no firm idea of when, it could be within weeks, or equally we may see nothing this side of summer recess.

We are currently discussing with MHCLG the concept of scheme change 'slots' in each year. In this scenario MHCLG would apply for one or more annual periods in the parliamentary timetable to use for legislative change. The regulations to be issued in those periods would be a combination of 'bug fixes' and new provisions. This would provide authorities with a clear idea of when changes will occur, however, the potential down side is that if that the consultation process is not complete

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in time the slot would be missed and those changes would have to wait for the next one. I would be interested in your thoughts on this possible solution.

Scheme complexity and data issues

The fact that the scheme has reached a point of complexity that is outside of the reasonable understanding of employers and scheme members is, in the view of the SAB, without dispute.

We will continue to work with authorities to standardise and streamline administrative processes where possible and, in particular, with regard to employer data submission and annual benefit statements. However, such work cannot disguise the fundamental complexity of the scheme that is at the root of the problem.

MHCLG have asked SAB to look at the regulations and make recommendations to simplify the scheme and/or make more use of guidance, this work will commence in the first quarter of 2019. To manage expectations it should be pointed out, however, that any such recommendations must be constrained by overriding legislation, potential cost and the requirements to protect accrued rights.

Possibly the best example is pensionable pay. As a result of the shift to CARE and protections included in the Public Service Pensions Act 2013 we now have three definitions of pensionable pay (CARE pay, APP and Final Pay). This causes significant confusion (and more importantly inaccuracy of data) for employers but would require changes to primary legislation to effect any real impact.

When considering potential simplifications the advice and involvement of bodies such as Technical Group, CIPFA pensions panel and PLSA LA Forum will be vital to ensure the voice of administering authorities is heard.

Cost Cap changes

The SAB made recommendations to MHCLG on changes as a result of the SAB cost management process in late November. Since that date MHCLG have sought legal and equality advice on those recommendations as well as seeking policy approval both within the ministry and across government. It was hoped that this process could be completed before Christmas but this has not been possible for a number of reasons which I understand include both the logistical and the political.

Although administrative considerations are important and were included in the formulation of these recommendations, such considerations could not take precedence over cost or the need to gain the support of both scheme employers and scheme members. Accordingly, I acknowledge that should they be accepted by Government they will represent a significant administrative challenge given the extremely tight timescale.

These changes, as with all other public service schemes, must come into effect by April 1st 2019 as that is start of the next HMT cost cap measurement period. Changing that date, however sensible (and yes I totally agree it would be), is not in the gift of either SAB or MHCLG.

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Given that nothing has yet come from government the SAB issued a note just before Christmas setting out its recommendations including proposed employee contribution rates in order to try and give some notice of what may happen.

However there is still a chance that either Government chooses to alter the recommendations or alternatively rejects them. In this case the HMT process would come into effect potentially resulting in the default outcome under PSP Act 2013 of a significantly more costly (if administratively simpler) adjustment to the accrual rate from April.

Conclusions

Your letter helpfully sets out a number of issues which I agree potentially undermine the ability for LGPS administering authorities to provide the service that scheme employers and members should receive. The SAB is aware of these and where it can is taking steps to improve things with MHCLG in particular via discussions on preset regulatory slots and scheme simplification.

I cannot however promise that there will not be further instances such as cost management where overriding legal and/or political priorities mean that administrative and communication matters are not able to be given the consideration they deserve.

Further improvements can always be made and I would therefore like to arrange a time to come to Wolverhampton to discuss these matters in more detail with you and/or your committee.

Yours sincerely



Jeff Houston
Secretary to the Scheme Advisory Board