

Pensions Committee

17 March 2021

Scheme Changes

Report by Director of Finance and Support Services

Summary

The report includes a summary of significant developments that impact the Fund.

The Committee received a report in January 2021 updating the position on the Restriction of Public Sector Exit Payments Regulations 2020. On 12 February the government issued the Exit Payment Cap Directions 2021 which disapply parts of the Restriction of Public Sector Exit Payments Regulations 2020 in England with immediate effect. As a result the £95k exit cap no longer applies and LGPS Administering Authorities must pay qualifying scheme members an unreduced pension. The West Sussex LGPS had not reduced any member benefits as a result of the £95k exit cap Regulations whilst in force.

Recommendations

- (1) To note the update.
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Proposal

1 Background and context

- 1.1 The benefit structure of the LGPS is set nationally. In April 2014, a series of changes were made to the Scheme to reform the benefits structure. These changes were implemented as part of a wider project across Government to reform public service pensions and put them on a more sustainable, affordable and fairer footing for the longer term. Some protections introduced as part of the reformed benefit structure have since been challenged on the grounds of age discrimination (the McCloud judgement), and a resultant pause was placed on the cost control mechanism introduced to determine how the McCloud judgement should be allowed for within the mechanism.
- 1.2 Separately the Government introduced changes to limit exit packages from the public sector to £95,000
- 1.3 The Government has also faced further challenge about discriminatory provisions within public sector Schemes (Goodwin) and provided a further partial response on its May 2019 consultation on changes to the local valuation cycle and management of employer risk.

2 Rectification as a result of the McCloud judgement

- 2.1 There are no updates on the work associated with the rectification work to draw the Committee's attention to.

3 Exit Payments in Local Government (£95k Cap)

- 3.1 In 2015 the Government first announced its proposals to prohibit six-figure exit packages from the public sector, by imposing a £95,000 cap on such packages.
- 3.2 The Committee received an update when it met in October 2020 and January 2021 on the Restriction of Public Sector Exit Payment Regulations 2020 primary legislation (the Cap Regulations) which was brought into effect on 4 November 2020 and placed an overall cap on the value of public sector exit payments at £95k. This applied to all public sector employees in the LGPS (and the unfunded public sector schemes).
- 3.3 On 12 February the government issued Directions to disapply these Regulations referring to 'unintended consequences'.
- 3.4 On 25 February 2021, the Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 were made and laid before parliament. They will come into force on 19 March 2021.
- 3.5 No members within the West Sussex LGPS received reduced benefits as a result of the Exit Payment Regulations.
- 3.6 MHCLG has also confirmed that the changes to the LGPS compensation regulations, which were released for consultation in September 2020 have also been closed and there will be no further changes made to LGPS pensions or redundancy terms without a further, separate consultation
- 3.7 It is anticipated that the government will legislate again to deal with "unjustified exit payments".

4 Unpausing of the Cost Mechanism

- 4.1 The Government Actuary's Department is currently awaiting Directions from HM Treasury in order to carry out the 2016 cost cap valuations (which impact benefits accrued from 1 April 2019). Similarly, the 2020 cost cap valuations are also likely to be delayed.

5 Discrimination on the grounds of sexual orientation (Goodwin)

- 5.1 There are no updates on the Goodwin remedy to draw the Committee's attention to.

6 Consultation, engagement and advice

- 6.1 The County Council receives advice from its actuarial advisers, Hymans Robertson and the Local Government Association and Scheme Advisory Board in relation to Scheme matters.

7 Finance

- 7.1 The Pension Fund will be required to cover additional resourcing costs associated with the changes set out above, not limited to the McCloud rectification work. The impact will be discussed with the administration team.

8 Risk implications and mitigations

- 8.1 The following risks from the Pension Fund's risk register are considered relevant in the context of this report:

| Risk | Mitigating Action (in place or planned) |
|--|--|
| Insufficient resources to comply with the Administering Authority's Regulatory responsibilities. | Work closely with the administration team on the response to the Scheme changes and the resource impact. |

9 Policy alignment and compliance

- 9.1 The Business Plan includes the objective to implement Scheme changes and consider, respond to and communicate with stakeholders on relevant matters.

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Background papers

None