

PART 1 - PUBLIC

Decision Maker: **General Purposes & Licensing Committee**

Date: **10th June 2014**

Decision Type: Non-Urgent Non-Executive Non-Key

Title: **LOCAL GOVERNMENT PENSION SCHEME 2014**

Contact Officer: Tracey Pearson, Chief Accountant
Tel: 020 8313 4323 E-mail: tracey.pearson@bromley.gov.uk
Sue Sydney, Assistant Director, Human Resources
Tel: 020 8313 4359 E-mail: sue.sydney@bromley.gov.uk

Chief Officer: Director of Finance
Director of Human Resources

Ward: Borough Wide

1. Reason for report

- 1.1 This report provides details of the discretionary functions for which the Council, as both an administering and employing authority, is required to publish a written statement of its policy. It also seeks to provide an overview of the key changes to the Local Government Pension Scheme (LGPS) which came into effect on 1st April 2014.
-

2. **RECOMMENDATION(S)**

The General Purposes and Licensing Committee is requested to: Note the changes to the LGPS from 1st April 2014;

- 2.2 Note the position regarding Academies and Admission Agreements for outsourced services as set out in section 3.13;
- 2.3 Note that those discretionary policies discussed in paragraphs 3.8, 3.10 and 3.11 are as agreed and published by full Council as part of the 2014/15 Pay Policy Statement on 24th February 2014;
- 2.4 Agree that the Council's Policy as regards discretion relating to the funding of additional pension will be as set out in paragraph 3.9.2.

2.1. Note the changes to the LGPS from 1st April 2014;

- 2.2 Note the position regarding Academies and Admission Agreements for outsourced services as set out in section 3.13;

- 2.3 Note that those discretionary policies discussed in paragraphs 3.8, 3.10 and 3.11 are as agreed and published by full Council as part of the 2014/15 Pay Policy Statement on 24th February 2014;
- 2.4 Agree that the Council's Policy as regards discretion relating to the funding of additional pension will be as set out in paragraph 3.9.2.

Corporate Policy

1. Policy Status: Existing policy. The Council's pension fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations for the purpose of providing pension benefits for its employees.
 2. BBB Priority: Excellent Council.
-

Financial

1. Cost of proposal: No cost
 2. Ongoing costs: N/A.
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £35.5m expenditure (pensions, lump sums, etc.), £39.5m income (contributions, investment income, etc.), £626.1m total fund market value at 31st March 2014
 5. Source of funding: Contributions to Pension Fund
-

Staff

1. Number of staff (current and additional): n/a
 2. If from existing staff resources, number of staff hours: n/a
-

Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme Regulations 2013
 2. Call-in: Call-in is not applicable.
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,254 current employees in the pension fund and 4,819 deferred pensioners as at 31st March 2014.
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments: Council wide

3. COMMENTARY

- 3.1 The Local Government Pension Scheme (LGPS) Regulations 2013 introduced changes to the LGPS which came into force on 1st April 2014. This followed a period of over two years of discussion and consultation which began after the publication of the Independent Public Service Pensions Commission's final report in March 2011.
- 3.2 The LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 resulted in significant changes from 1st April 2014. The key changes are summarised below:
- benefits for membership after 31st March 2014 will accrue on a Career Average Revalued Earnings (CARE) basis rather than the current final salary scheme;
 - change in the annual accrual rate from the current 1/60th to 1/49th (previously 1/80th under the 2008 Scheme);
 - a new 50/50 option where members can choose to pay half contributions and build up half of the pension - there is no restriction on the number of times a member can elect to take this option and the full value of life and ill-health cover is retained;
 - an increase in the vesting period (ie. the period of time a member has to pay into the scheme in order to be entitled to a pension) from 3 months to 2 years from April 2014 - members who leave with less than 2 years will receive a refund of contributions;
 - increased flexibility allowing members to draw their pension anytime from the age of 55 without employer consent (subject to actuarial reduction);
 - normal pension age being linked to state pension age with a minimum age of 65 (rather than the pre 2014 Scheme which had a normal pension age of 65);
 - changes to the definition of pensionable pay to include non-contractual overtime and additional hours;
 - new contribution rates as set out in the table below;
 - the contribution rate for part-time staff will now be based on their part-time pensionable pay rather than the full-time equivalent payable under the previous Scheme.
- 3.3 The table below shows the revised employee contribution rates that apply both before and after the 1st April 2014 changes:

Contribution Rates			
post 1 st April 2014		pre 1 st April 2014	
Pay Bands	Rate	Pay Bands	Rate
Up to £13,500	5.5%	Up to £13,700	5.5%
£13,501 to £21,000	5.8%	£13,701 to £16,100	5.8%
£21,001 to £34,000	6.5%	£16,101 to £20,800	5.9%
£34,001 to £43,000	6.8%	£20,801 to £34,700	6.5%
£43,001 to £60,000	8.5%	£34,701 to £46,500	6.8%
£60,001 to £85,000	9.9%	£46,501 to £87,100	7.2%
£85,001 to 100,000	10.5%	More than £87,100	7.5%
£100,001 to £150,000	11.4%		
More than £150,000	12.5%		

- 3.4 All pension built up in the LGPS before 1st April 2014 is fully protected meaning that pension accrued up to this date will continue to be based on final pay, and that a scheme member's normal pension age will be protected and not be linked to state pension age (for most members this is age 65 although some members have a lower normal pension age through protections applied when the scheme was changed in 2008). The definition of final pay for service before 1st April 2014 has not changed, and is normally the full-time equivalent pay in respect of the final year of scheme membership or one of the previous 2 years if this is higher.
- 3.5 Protections are also in place for scheme members nearing retirement to ensure that they will receive a pension at least equal to that they would have received if the Scheme had not changed. This is referred to as the 'underpin' and applies to people paying into the Scheme on 31st March 2012 who, on 1st April 2012, were within 10 years of their normal pension age. The 'underpin' will not apply if there has been a disqualifying break in service of more than 5 years or if a member elects to opt out of the scheme or draws any benefits before their normal pension age.

Publication of policies

- 3.6 Regulation 60 requires a scheme employer or an administering authority to publish a written statement of its policy relating to certain discretionary functions. Although there are a number of individual discretions, as set out in appendix 1, they can be summarised as relating to flexible retirement (section 3.8), funding of additional pension contributions (section 3.9), the waiver of actuarial reductions of pension benefits drawn before normal retirement age (section 3.10), and the award of additional pension (section 3.11).
- 3.7 The Regulations require the Council to publish its policy statements by 30th June 2014 and these must be kept under review and be revised where appropriate. At this stage, Members are therefore asked to:
- note those existing policies included within the Pay Policy Statement 2014/15 agreed by full Council in February 2014 as recommended by this Committee; and
 - consider and agree the policy to be applied in new areas of discretion afforded by the 2013 Regulations as set out in section 3.9 below.

3.8 Flexible Retirement

- 3.8.1 An active member of the LGPS who has attained the age of 55 may, with employer consent, reduce his/her contractual hours and/or transfer to work of a lower grade, and at the same time apply to receive all or part of his/her pension benefits and continue working rather than retire fully.
- 3.8.2 The Council's policy on flexible retirement was introduced when this became an option in December 2008 and is included as part of the 2014/15 Pay Policy Statement. Each application is considered on its individual merits by a Panel of four Chief Officers including the Director of Finance and Director of Human Resources and the Policy requires there to be a sound business case taking any cost, service impact/benefit, the employee's contribution to the Council's service to date and any compassionate grounds into account. The policy is sufficient to meet the requirements of the new Regulations and no changes are required to be made.

3.9 Funding of Additional Pension

- 3.9.1 Active members may purchase additional annual pension (up to a maximum amount of £6,500 from 1st April 2014 to be increased by annual pensions increase) by entering into an agreement to pay additional pension contributions. The cost is determined by the Government actuary and contributions can be made by way of either a lump sum payment or regular contributions.
- 3.9.2 A scheme employer now has discretion to contribute to the cost of these additional contributions, either in full or in part. Although the total cost would be dependent on the number of members wishing to enter into such an agreement and the financial information from the actuary, it is recommended that the Council adopts a policy whereby it would not normally apply this discretion due to the additional costs that would be incurred. However, exceptionally it may be in the Council's interests to consider this option in which case Members' agreement would be required taking into account legal, financial and HR advice appropriate to the individual circumstances.

3.10 Waiver of Actuarial Reductions

- 3.10.1 An employer, former employer or an administering authority where the employer no longer participates in the Fund may agree to waive, in whole or in part, any reduction to benefits that applies on early retirement (from age 55) or flexible retirement. Currently in considering applications for early/flexible retirement the Chief Officer's Early Retirement Panel may exercise discretion to waive any actuarial reduction of pension benefits in individual cases based on the demonstrable benefits of the business case including the cost, impact on the service, officer's contribution to the service and any compassionate grounds. The cost factor is a key consideration.
- 3.10.2 Under the new scheme, active members and deferred members with benefits awarded under the new scheme may now choose to take their pension benefits from age 55 (previously age 60) without their employer's consent although actuarial reductions will be applied unless the employing authority agrees to waive them. Consideration of any such applications is consistent with the current discretions delegated to the Chief Officers' Early Retirement Panel as set out in paragraph 3.10.1 above. The Council's current policy is sufficient to comply with the new Regulations and no changes are required to be made.

3.11 Award of Additional Pension

- 3.11.1 An employer may award an active pension scheme member, or someone who leaves employment on grounds of redundancy or business efficiency, additional pension of up to the additional pension limit (£6,500 from 1st April 2014 increased by annual pensions increase). This replaces a previous discretion to award additional service ("added years") for pension purposes. The cost of awarding additional pension is determined by the Government actuary and is met in full by the employer.
- 3.11.2 The Council's current policy, as reflected in the 2014/15 Pay Policy Statement for Chief Officers, is that the Council would not normally agree any discretionary increase in or enhancement of pension entitlement. However exceptionally it may be in the Council's interests to consider this option in which case Members' agreement would be required taking into account legal, financial and HR advice appropriate to the individual circumstances. As this is sufficient to comply with the new Regulations, no changes are required to be made to the policy.

3.12 There are a large number of other existing policies and discretions relating to the Council's responsibilities under LGPS Regulations which do not come under the time-limited requirement to publish under Regulation 60 and which will be reviewed over coming months to ensure that they remain fit for purpose and compliant with Regulations. Any changes to existing policies requiring Member approval will be reported to the relevant Committee as appropriate.

3.13 Admission Agreements / Academies

3.13.1 Three of our Academies have, or are in the process of, outsourcing their cleaning contracts and have requested that the contractors enter into admission agreements. Provided the scheme employer (in this case the Academy) and the contractor undertake to meet the requirements of the Regulations the Council, as administering authority, has no power to refuse admitted status. Unlike statutory guidance where we have limited discretion there is no discretion that can be applied to the Regulations. The choice lies with the individual academy and the contractor not the Council although we are able to agree the terms of the agreement.

3.13.2 We are in the process of drawing up admission agreements in consultation with colleagues in legal and the Council's actuary. Each contractor will be required to provide a bond and the academies will be required to act as guarantor. The admission agreements will be on a 'closed' basis meaning that only those staff who transfer will be allowed to join the scheme although future agreements may be 'open' at the determination of an Academy and contractor.

3.13.3 It is likely that we will receive further requests for admitted body status as more schools convert to Academy status and as more Academies look to outsource work to external contractors.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations for the purpose of providing pension benefits for its employees.

5. FINANCIAL IMPLICATIONS

5.1 There are no additional costs arising from the discretionary policies set out in this report as they are, in the main a continuation of existing policies.

5.2 The 2013 actuarial valuation took into account the impact of changes to the LGPS 2014 to determine the financial implications on past deficit liabilities as well as future service costs. Further details were reported to Pensions Investment Sub-Committee on 11th February 2014.

6. LEGAL IMPLICATIONS

6.1 The Public Service Pensions Act 2013 provides primary legislation for all public service schemes including the LGPS 2014.

6.2 LGPS Regulations 2013 came into force on 1st April 2014 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 were published on 10th March 2014.

- 6.3 Regulation 60 of the LGPS Regulations 2013 requires the Council to prepare and publish a written policy on certain discretions by 30th June 2014.
- 6.4 Part 3 of Schedule 2 to the 2013 Regulations provides that an administering authority must admit to the Scheme the eligible employees of a transferee admission body where the transferee admission body and the scheme employer undertake to meet the requirements of the Regulations.

7. PERSONNEL IMPLICATIONS

- 7.1 The Council is required to enrol all Council employees with new contracts of employment of three months or more into the LGPS unless they are entitled to belong to the Teachers' Pension Scheme or the NHS Pension Scheme. Employees may opt out of the Scheme thereafter if they so wish. Currently 83% of eligible employees are active members of the LGPS (excluding casual staff).
- 7.2 All employees who are either active or potential scheme members have been informed of the LGPS changes with effect from 1 April 2014, including their increased contribution rates where applicable (paragraph 3.3 above refers).

Non-Applicable Sections:	None
Background Documents: (Access via Contact Officer)	Public Service Pensions Act 2013 Local Government Pension Scheme Regulations 2013; Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.