

# Scheme Advisory Board

## **Agenda item 5 – Paper D Pension teams under pressure**

### **Summary**

1. Those responsible for LGPS service delivery are coming under increasing pressure to cut those services as a result of 'across the board' reductions in council staffing and resources. Such reductions are risking future financial impacts to funds significantly in excess of any savings made.
2. Indications are also appearing of host authorities seeking to stretch their ability to recharge 'overheads' to the fund potentially beyond the limits allowed by regulation.
3. A specific request has been received from the chair of the Administration and Communications committee that the Board write to host authority chief executives on this matter.

### **Cutting of service delivery resources**

4. Many local authorities including LGPS host authorities have as a result of ongoing cuts to income from central government and limitations on council tax rises introduced across the board reductions in staffing and resources. Initially the LGPS pension function was not included but increasingly that situation is changing.
5. Although the argument that all parts of the council must be seen to be sharing the burden has some weight the financial argument does not. The costs of the management and administration of the LGPS function are met from the fund - under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 - not from the council's revenue account.
6. Therefore any savings from such cuts go back to the fund not to the council. More importantly such cuts could result in the authority not being able to meet all its statutory duties under regulations. This may lead to sanctions from The Pensions Regulator should any part of Code of Practice 14 or Disclosure regulations not be met. Alternatively DCLG may ask the valuation to be reassessed under section 13 of the Public Service Pensions Act if they are concerned the regulations are not being applied effectively. Finally the LGPS is already the best customer of the Pensions Ombudsman and cuts to services will only result in more cases of maladministration which of this month now carry a higher penalty of £500 per instance.
7. Even if such sanctions are not imposed the authority will run the risk of over and under payments of benefits and pensions resulting in reputational and /or financial loss. Also if fund actuaries are not satisfied with the standard of the

### **Scheme Advisory Board Secretariat**

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records they may seek to use more prudent assumptions resulting in higher employer contribution rates.

8. Ironically these cuts to service are being considered at a time when pension teams find themselves under increasing administrative and regulatory pressure due to the new scheme, new codes of practice, new disclosure regulations, freedom and choice, GMP reconciliation, new governance arrangements, notwithstanding the potential for higher levels of investment cost transparency.

## **Use of the ability to recharge**

9. As stated above the host authority may recharge its costs for managing the LGPS back to the fund. Many of these recharges include reasonable overheads that cannot directly be attributable to the function.
10. Signs are emerging that some host authorities are considering stretching this ability to recharge overheads. This could potentially be done by increasing the overhead charge to subsidise other council activities (e.g. pensions payroll subsidising staff payroll). Alternatively the council could seek to reduce the actual costs of the function whilst maintaining the same level of recharge thereby increasing the payback to the council itself through an increased overhead recovery.
11. It should be stressed that although anecdotal indications of a stretching of powers in this way are increasing no empirical evidence of such practices exists at this time.
12. It should be noted that the contribution rate calculated for employers includes an element to meet administration costs. Therefore if any reductions are made to the cost of the service the savings must go back into the fund (and therefore to all employers) otherwise those other employers would be in effect subsidising a saving for the host authority.

## **Request for a letter**

13. On 10<sup>th</sup> June the chair of the Board's Administration and Communications committee wrote to the chair of the Board asking for a letter to be sent to LGPS Fund Chairs. The letter should set out the increasingly regulatory burden of pension teams, the risk of cutting the service, the financial reality of any such cuts and the regulatory limitations on recharges to funds.
14. Given the potential financial and regulatory impacts the letter could also be copied to Chief Executives of host authorities.

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## **Decisions required**

15. Board are asked to agree that a letter from the Chair is drafted and circulated for agreement before sending to chairs of pension committees.
16. Board are also asked to agree that the letter should be copied to Chief Executives of host authorities.

Board secretariat

1<sup>st</sup> July 2015