



LOCAL PENSION BOARD

27 MARCH 2024

REPORT TITLE:	LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides an overview of changes affecting the future administration and governance of the Local Government Pension Scheme (LGPS).

RECOMMENDATION/S

That the Local Pension Board be recommended to note the administration and governance changes to the LGPS, to ensure continued compliance with legislation, statutory guidance, and industry codes of practice.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 There is a requirement for the Local Pension Board to be fully informed of national directives and legislative developments to ensure the appropriate governance and stewardship of the Fund in their capacity as Scheme Manager.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 This is the most appropriate option for informing the Local Pensions Board of regulatory, legislative and industry developments.

3.0 BACKGROUND INFORMATION

Pension Increases 2024

- 3.1 HM Treasury published a written ministerial statement concerning the increases to apply for public service pensions in April 2024. This confirms that LGPS pensions will increase by 6.7% from 8 April 2024 (a lower pro-rata increase will apply to pensions that started after 23 April 2023) and active pension accounts will be revalued by 6.7% from 6 April 2024.
- 3.2 This increase is based on the change in the Consumer Prices Index in the year to September 2023.
- 3.3 The ministerial statement also confirms the revaluation rates that will apply when revaluing earned pension credited in respect of a Club transfer from other public service pension schemes.

The Pension Regulator's 'General Code of Practice'

- 3.4 The Pension Regulators (TPR) remit in relation to public service pension schemes is narrower than it is in the private sector. Since the reforms in the Public Service Pensions Act 2013, TPR does have regulatory oversight for public service pension schemes, as well as being responsible for setting governance and administration standards.
- 3.5 Section 90A(1) of the Pensions Act 2004 gives TPR power to issue codes of practice in relation to public service pension schemes. This resulted in the issue of 'Code of Practice (no.14): Governance and Administration of Public Service Pension Schemes'.
- 3.6 Multiple codes existed for different types of schemes which have now been combined into a new 'General Code of Practice', laid before Parliament on 10 January 2024 and is expected to take effect from 27 March 2024.
- 3.7 In addition to making the 'General Code' more user friendly and accessible, it consolidates and expands on ten existing Codes of Practice, including Code No.14 (Governance & Administration of Public Service Pension Schemes).

- 3.8 It will also cover the new requirements of s249A Pensions Act 2004 (originally introduced to comply with IORP II) and the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018, to establish and operate an effective system of governance including internal controls.
- 3.9 The 'General Code' contains 51 modules covering five areas which are:
- the governing body,
 - funding and investment,
 - administration,
 - communications and disclosure,
 - and reporting to TPR.

Not all the modules are legal requirements for the LGPS but TPR's directive is that they should be viewed as best practice to strengthen future governance and internal controls of the scheme.

- 3.10 The 'General Code' contains some good practice modules on investments for Public Service Pension Funds, including investment governance, investment monitoring and climate change. TPR has clarified that the scheme managers of Local Government Pension Schemes do not have the same statutory obligations in this area, but it is good practice for them to approach investment governance and monitoring in the same manner as private schemes.
- 3.11 The 'General Code' introduces a full module in respect of 'Cyber Controls' which formalises earlier guidance from TPR on cyber security principles for pension schemes. The module states that scheme managers of public service pension schemes must establish and operate internal controls and develop a cyber security and risk management strategy, including incident response plans and third-party assessment frameworks.
- 3.12 A second new module relates to the risk of pension scams, associated with scheme members transferring their benefits out of the scheme to alternative arrangements that are either criminal or offer little or no protection of future benefits. This new module stipulates that Scheme Managers are required to undertake appropriate due diligence to identify possible scams and to take steps to ensure that members are aware of the risks of pension scams.
- 3.13 TPR has introduced a programme of webinars following publication of the 'General Code' to provide key points of clarification in relation to:
- **The definition of the governing body** - for public service pension schemes this is confirmed to be the scheme manager. The code confirms that the governing body does not include the Pension Board and where Pension Boards have specific responsibilities this is explicit in the relevant modules.
 - **The application of the Effective Systems of Governance (ESOG) and Own Risk Assessment (ORA) for Public Service Pension Schemes** - TPR confirmed that these do not apply to public service pension schemes.

However, schemes may need to comply with those modules that make up the ESG and some elements of the ORA may be good practice for schemes to consider.

- 3.14 Although TPR's latest research on governance and administration shows that the LGPS already has high standards of governance, to demonstrate compliance Fund Officers are currently working with the Fund's professional advisers to undertake a gap analysis of the Fund's policies and reporting procedures against the 'General Code' with consideration of where policies need to be updated or drafted.
- 3.15 In addition, ahead of actions emerging from the Scheme Advisory Board's Good Governance project and the training requirements emerging from the Pooling consultation, an assessment of training needs of the Pension Committee, Pension Board and Fund Officers will be incorporated into the Fund's work plan to ensure compliance with the Code, including responsibilities and timescales.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The costs related to statutory pension increases for 2024 will be met by the Fund's operational budget for 2024/25.
- 4.2 The Governance review of the Fund following the Pensions Regulator's publication of the 'General Code of Practice' are included in the operational budget for 2024/25.

5.0 LEGAL IMPLICATIONS

- 5.1 The administering authority's solicitor, acting for the Fund, will provide advice to ensure compliance with the Pension Regulator's 'General Code of Practice' in line with legal requirements.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 Although the 'General Code of Practice' provides an opportunity for LGPS Funds to review current practice, it also presents further resource challenges during an extremely busy time with competing pressures to deliver the McCloud remedy, and national initiatives such as the Fund's connection to the Pension Dashboard Programme and further expected consultations on regulatory changes.
- 6.2 TPR has outlined that where schemes have undertaken a gap analysis, they will take a pragmatic view when considering compliance. The key factor is whether a scheme has a bespoke action plan in place, which includes timescales for demonstrating compliance.

7.0 RELEVANT RISKS

- 7.1 Failure to comply with the 'General Code of Practice' will result in the ineffective management of the Fund and lead to sanction by the Pensions Regulator, including the possibility of financial penalties and reputational damage.

8.0 ENGAGEMENT/CONSULTATION

8.1 The changes to administration and governance of the LGPS are consulted on at national level by the relevant government department.

9.0 EQUALITY IMPLICATIONS

9.1 Department for Levelling Up, Housing and Communities (DLUHC) and the Pensions Regulator undertake equality impact assessments regarding the provisions of the LGPS Regulations and the administration and governance of public service pension schemes.

9.2 The Equality Statement published on the introduction of the Local Government Pension Scheme 2014 can be viewed at: <https://mpfund.uk/lgpsequalitystatement>

9.3 DLUHC and HM Treasury undertake equality impact assessments with regard to the statutory reform of the public sector pension schemes and LGPS.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund continues with its digital strategy across all operational areas and communications with stakeholders, with the aim to improve service delivery and to reduce its internal carbon footprint.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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BACKGROUND PAPERS

The Pension Regulator's 'General Code of Practice'
<https://www.thepensionsregulator.gov.uk/en/document-library/consultations/new-code-of-practice>

The Pension Regulator's research on governance and administration
<https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis#b856d02f01714192895cdb91e84a4410>

TERMS OF REFERENCE

This report is being considered by the Local Pension Board in accordance with Section 13.2(b) of its Terms of Reference:

(d) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

Subject History (last 3 years)

Council Meeting	Date
Standing Agenda Item	