



PENSIONS COMMITTEE

24 SEPTEMBER 2024

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

REPORT SUMMARY

This report provides an overview of central government policy impacting the Local Government Pension Scheme, along with developments in relation to the Cost Control Mechanism under section 12 of the Public Service Pensions Act 2013

RECOMMENDATION/S

That the Pensions Committee be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 There is a requirement for the Pensions Committee 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 Pension Committee of legislative developments.

3.0 BACKGROUND INFORMATION

Ministerial Appointments with Remit Over the LGPS

- 3.1 The new Minister for Local Government with responsibility for LGPS policy is Jim McMahon and the new Secretary of State is Angela Rayner who has overall responsibility for signing off the Local Government Pension Scheme (LGPS) regulations.
- 3.2 The department reverted to its former name, the Ministry of Housing, Communities, and Local Government (MHCLG), on 8 July 2024, removing the 'levelling-up' aspect added to the department's name under the previous Government.
- 3.3 Emma Reynolds MP has been appointed as Parliamentary Secretary in His Majesty's Treasury and the Department for Work and Pensions (DWP) with ministerial responsibility for Pensions. Her appointment across both the Treasury and DWP has sparked hope within the industry that there will be more a joined-up approach to pensions policy across these Government departments.

Government Priorities For the LGPS

- 3.4 Following the general election, the State Opening of Parliament took place on 17 July 2024 and the King's Speech set out the Government's plans and priorities for the first parliamentary session. The speech unveiled a legislative programme introducing several bills with implications for the LGPS.

Pension Schemes Bill

- 3.5 The majority of the proposals cover the private pensions market and focus on the automatic consolidation of multiple small defined contribution (DC) pension pots. However, it does include the Government's intention to reaffirm the Pensions Ombudsman (TPO) as a competent court, and once enacted, administering authorities will no longer need to apply to the courts to enforce a TPO decision concerning recovery of an overpayment.

National Wealth Fund Bill

- 3.6 The National Wealth Fund bill is central to the new Government's mission to deliver growth and will look to support "greener" growth in the economy through "transformative" investments. This will bring in funds from the UK Infrastructure and British Business Banks so that investment can start immediately.
- 3.7 This new Fund has the potential to provide LGPS funds with access to investments which may help meet responsible investment objectives and build funding resilience against risks such as climate change, assuming the expected returns also fit with individual funds' wider investment strategies.

Draft Bill on Audit Reform and Corporate Governance

- 3.8 The draft bill on Audit Reform and Corporate Governance includes provision for the 'Financial Reporting Council' to be replaced by a new regulator called the 'Audit, Reporting and Governance Authority', with a regime to oversee the audit market.
- 3.9 Furthermore, the draft bill creates a vehicle to take forward the proposal of the Scheme Advisory Board (SAB) and the Chartered Institute of Public Finance and Accountancy (CIPFA) to separate the pension fund from the host authority's audit in England, akin to LGPS funds in Scotland and Wales.

The proposal was previously supported by the Levelling Up Select Committee in the last Parliament.

Government Landmark Pension Review

- 3.10 On 20 July 2024, the Chancellor of the Exchequer, Rachel Reeves issued a press release, 'Big bang on growth', launching a comprehensive two stage pension review with the objectives of boosting investment, increasing saver returns and tackling waste in the pensions system.
- 3.11 The review will be led jointly by HM Treasury and the Department for Work and Pensions.
- 3.12 The LGPS is central to the review, with the stated aim 'to make it an engine for UK growth'. The review appears to be taking forward the actions started by the previous Government to accelerate pooling, as the intent is for the new Government to mandate a pooling programme if there is insufficient progress by March 2025.
- 3.13 Further consolidation will also be considered to reduce the £2bn spent in fees each year across the LGPS.

- 3.14 The terms of reference for Phase One of the review were issued on 16 August which are explicit with regard to areas for policy development for the LGPS, specifically:
- tackling fragmentation and inefficiency, through consolidation and improved governance
 - encouraging further pension investment into UK assets to boost growth across the country.
- 3.15 In developing its recommendations, the review will focus on Improving the affordability and sustainability of the LGPS in the interests of members, employers, and local taxpayers.
- 3.16 The outcome of the review is expected to be reported in the next few months and the second phase will start later this year with the remit of improving pension outcomes and assessing retirement adequacy.

It is not yet clear whether the LGPS is in scope for phase 2.

SAB Cost Management Process

- 3.17 The Government's Actuary Department has now completed the scheme cost assessment required under Regulation 116 of the LGPS Regulations 2013.
- 3.18 The SAB cost management process final report was completed using methodology and assumptions determined by the Board, following discussion at the Cost Management, Benefit Design and Administration (CMBDA) Committee.
- 3.19 Scheme costs were assessed as being 20.5 percent of pensionable pay, 1 percent above the 19.5 percent target cost. This is within the range where the Board may make recommendations to amend benefits to bring scheme costs back towards the target cost but is not obliged to.
- 3.20 Following discussion, the Board agreed not to recommend any changes in its letter to the Secretary of State about the outcome of the scheme cost assessment.

4.0 FINANCIAL IMPLICATIONS

- 4.1 Proposed LGPS consolidation as part of the 'Government Landmark Pension Review' to further reduce fees, may result in changes to government's view of pool size and accelerated pooling of mandates if progress is not made by March 2025.
- 4.2 The Government's Pension review is intended to unlock at pace the £360 billion investment potential of the LGPS in UK-based "productive assets".
- 4.3 The Scheme Advisory Board's decision to not recommend any changes to the benefit structure following the scheme cost assessment, provides a known position for the Fund's actuary as he prepares for the upcoming triennial 2025 valuation.

5.0 LEGAL IMPLICATIONS

- 5.1 The administering authority's solicitor, acting for the Fund, provides advice as to the implementation and interpretation of legislative and governance requirements.
- 5.2 LGPS administering authorities have a fiduciary duty to act in the best interests of scheme members. Investment powers must be directed to achieving what is the best for the financial position of the fund.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 The proposal to separate the pension fund from the host authority's audit may open the market for more specialist external audit firms to engage on pension fund accounts. This has the potential to improve the quality of pension audits and for providing better value for money and cost savings.
- 6.2 The separation of the audit exercise will have a positive impact on the timely publication of pension fund accounts and pension fund annual reports with the latest documented evidence that 80% of Scottish and Welsh funds managed to publish audited pension fund accounts on or before 1st December 2021, whilst in England only 17% of audited pension fund annual reports were published by the same date.

7.0 RELEVANT RISKS

- 7.1 There is a material risk that further consolidation of LGPS funds and pools may significantly increase operational and governance demands across the scheme.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 The terms of reference of the Government's pension review confirms the intent to "consult widely" and will seek views from "employers, trade unions, the pensions industry, financial services, local government and consumer voices".

9.0 EQUALITY IMPLICATIONS

- 9.1 Ministry of Housing, Communities and Local Government (MHCLG) 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.

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

MHCLG 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

Government Actuary Department SAB Cost Management Process (CMP)

<https://lgpsboard.org/images/CM/SCA%202024%20final%20report.pdf>

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference:

(d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day-to-day administration and to be responsible for any policy decisions relating to the administration of the scheme

Subject History (last 3 years)

Council Meeting	Date
Standing Agenda Item	30 July 2024