

## **Lancashire Local Pension Board**

Meeting to be held on Tuesday, 23 January 2024

Electoral Division affected:  
(All Divisions);

### **Regulatory Update**

Contact for further information:

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#### **Brief Summary**

This report sets out an update on various pension related regulatory issues to assist Board members to exercise their functions as a member of the Pension Board effectively.

#### **Recommendation**

The Board is asked to consider and note the contents of the report.

### **Detail**

#### **1. McCloud**

As reported at the last meeting the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023 were published on 8<sup>th</sup> September 2023 and came into force on 1<sup>st</sup> October 2023.

Background to the McCloud remedy and its implications is provided in more detail in the April 2023 and July 2023 regulatory updates to the Board.

There is now a dedicated area of the [LGPS member website](#) dedicated to the McCloud remedy. In addition, the Local Government Association (LGA) has published stage one of its [McCloud administrator guide](#), covering which members qualify for underpin protection, as well as how administrators perform provisional and final underpin calculations. Further stages will cover other types of calculations, including transfers and how to revisit past calculations, and are expected to be published in early 2024.

The Local Government Association (LGA) held webinars for scheme administrators during December in which they gave an overview of the history and a summary of the changes, described the two-stage remedy process (provisional and final underpin calculations), and addressed some of the queries raised by LGPS



Administering Authorities. Under the new regulations the provisional calculation is undertaken when a member leaves or reaches normal retirement age if earlier. The final calculation is undertaken generally when the member retires – it is based on the provisional figures but then adjusts the benefits for pensions increase, and any actuarial increases or decreases due to early or late payment. LGA affirmed that the amendment regulations are the biggest changes since the scheme reform in 2014/15, and that there are still areas which await further amendment regulations such as for teachers' excess service. Further guidance from the Government Actuary's Department (GAD) and other statutory guidance is still awaited. Certain transfers for members with underpin protection are on hold until the actuarial guidance for transfers is updated. At the time of writing this report, there are 5 transfers in quotes and 10 transfer out quotes on hold, awaiting the GAD guidance.

LPPA have a McCloud Project, the focus of which is on implementing systems functionality, and supporting some Local Government Employers who have not confirmed the accuracy of historic hours and service break data. Some of the required system functionality is currently in the UPM test environment and testing is expected to be completed by 12 January 2024. It is expected by the end of January that system functionality will be live to identify all members who are eligible for the underpin, and that "provisional" calculations and "final" retirement calculations can be performed including the underpin for those under age 65.

It is acknowledged that LPPA are like most fund administrators in that they are not currently able to apply the underpin calculations to newly eligible members and will revisit cases when the system functionality is in place.

The accuracy of the new McCloud calculations does also depend on data being correct, and LPPA are separately working with the fund to ensure that employers confirm that member hours and service break data submitted since 1<sup>st</sup> April 2014 is complete and correct.

Where employers have not confirmed that data is correct, a calculation can still be run for the member based on the career average data. The underpin calculation can only be undertaken once the data has been verified. If a member has left once the data is verified a bulk recalculation can be performed for all members of that employer to ascertain if an underpin should have been applied to the benefits.

## **2. McCloud – Disclosure Regulations**

Under The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 there is a requirement to notify members and their representatives when there is a change that materially affects the scheme. This information should be given within 3 months of the effective date of the change. It can be given by making it available on a website, but a notification should be sent by email to individual members where possible to state that the information has been made available on the website.

LPPA have published comprehensive information on their [website](#) however given that it is generally acknowledged that a small proportion of members will be affected by the changes (that is the estimate of the proportion of members who are newly eligible for the underpin whose final salary benefits would exceed the career average



calculation), it has been decided that a communication would not be beneficial and would cause unnecessary disruption to member services.

### **3. Pensions Dashboards**

As stated in the regulatory update to the Board in October, there is now a single connection deadline for all schemes of 31 October 2026, and guidance is to be issued on a staged connection guideline for all schemes, The Pensions Dashboards Programme (PDP) has now shared proposed staging dates, and the connection date is expected to be September 2025 for the LGPS. This is to be confirmed in staging guidance due to be published by the Money and Pensions Service in Spring 2024.

On 6<sup>th</sup> November 2023, the LGA published draft LGPS Dashboard connection guidance which provides information to support administrators in implementing dashboards. A final version of the guidance will be published when the Money and Pensions Service have issued their formal staging timetable.

The Pensions Administrations Standards Association (PASA) has published [Pensions Dashboards Connection Ready Guidance](#) and a [‘Call to Action’](#).

LPPA have a Pensions Dashboard Project which will cover systems development and data cleansing work, there are no current concerns about the proposed deadline.

### **4. Abolition of LTA**

In the Autumn Statement the Treasury announced that they will fully abolish the Lifetime Allowance from 6 April 2024; and put in place new rules to determine the tax treatment of pension lump sums. The Lifetime Allowance is the total amount a member can build up in all their pension savings without incurring a tax charge This will be legislated for in the Finance Bill 2023-24.

HMRC have produced a Lifetime Allowance guidance newsletter, which covers the changes to certain lump sums, the impact on lifetime allowance protections, changes to reporting and disclosure, and the transitional arrangements.

LGA are currently working to provide LGPS specific guidance.

### **5. SCAPE Discount Rate Change**

Following the change to the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate in March 2023, the Government Actuary's Department have now issued the fourth and final batch of new factors which affects calculations of Additional Pension. Members have the option to pay Additional Pension Contributions to increase their pension benefits at retirement. For members who are currently paying into a regular Additional Pension contract, LPPA will need to recalculate their contributions using the new factors from 1 April 2024. LPPA will communicate with both the members and their employers to implement the changes. It is expected that contributions will need to increase.



The Public Sector Transfer Club factors were also issued and came into effect on 1 October 2023.

## 6. Publication of LGPS statistics for England and Wales for 2022/23

On 25<sup>th</sup> October 2023, the Department of Levelling Up, Housing and Communities (DLUHC) published its compilation of the data provided by 87 LGPS Administering Authorities in England and Wales on the SF3 (Pensions) form for 2022/23. The SF3 form collects data on income, expenditure, membership, and retirements.

The key findings were –

- Total Local Government Pension Scheme (LGPS) expenditure in England and Wales in 2022-23 was £15.2 billion.
- Total LGPS income in England and Wales in 2022-23 was £17.3 billion.
- Employers' Contributions to the LGPS in 2022-23 in England and Wales amounted to £8.4 billion. Employees' contributions to the scheme were £2.8 billion.
- The market value of LGPS funds at end of March 2023 was £359.1 billion.
- There were 93,580 retirements from the LGPS in 2022-3.

The full report can be accessed at the following link:

[Local government pension scheme funds for England and Wales: 2022 to 2023 revised - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/117111/local-government-pension-scheme-funds-for-england-and-wales-2022-to-2023-revised.pdf)

## 7. Surpluses working group.

The Scheme Advisory Board (SAB) have established a "Surpluses Working Group" to look at the issues presented by the improving funding positions across the Scheme. Funding levels across the scheme increased at the 2022 valuation and the Lancashire County Pension Fund moved to being 115% funded. SAB has now issued a [Statement on Surpluses](#) which was drafted with input from the members of the group

The issues presented by surpluses might include large exit payments becoming payable to exiting employers, and an increased appetite from some employers and their advisers to try to influence funds' investment and funding strategies to de-risk funding positions. Some employers have also looked to exit the fund for deferred and pensioner members whilst remaining a participating employer for active members.

SAB have reiterated the importance of stability in employer contribution rates to help employers with financial planning. They have also stated that tailoring of strategies by the fund requires additional resource and governance, and that Funds should consider how these costs will be met as well how they fit with the Fund's overall risk management approach. Regarding partial terminations in particular, legal advice would also be required.

SAB are working with the Chartered Institute of Public Finance and Accountancy (CIPFA) to refresh the existing (2016) funding strategy statement guidance and have



already identified that more guidance is needed around risk management and exit credit policy.

The Fund has been discussing the issues raised in this statement with the Fund Actuary as part of the 2022 valuation as it did receive a number of queries from an extremely small number of employers following the 2022 valuation, both as part of the Funding Strategy Statement consultation, and will continue to communicate with employers around these topics.

## 8. Investments

### **Economic Activity of Public Bodies (Overseas Matters) Bill**

The Economic Activity of Public Bodies (Overseas Matters) Bill, also known as the Boycotts, Divestments and Sanctions Bill has its third reading in the House of Commons scheduled on 10 January 2024. The Bill seeks to ban LGPS administering authorities from making investment decisions influenced by political and moral disapproval of foreign state conduct, except where this is required by formal Government legal sanctions, embargoes, and restrictions.

### **Mansion House Speech/Investment pooling**

As reported in the regulatory update to the last meeting of the Board, a consultation on "the next steps on investments" was launched by DLUHC on 11 July 2023. The consultation closed on 2 October 2023, and DLUHC published their [response](#) on 22 November 2023.

The consultation largely adopts the measures the government originally consulted on. DLUHC have stated that the government will now implement the proposals that were set out in the consultation to accelerate and expand pooling and increase investment in levelling up and in private equity. They will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled. *As reported in the regulatory update to the Board in October, the Fund is already 100% transitioned.*
- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark



- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan *The Fund already has significant investment in local property and UK infrastructure which we expect to exceed government targets*
- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity. *The Fund currently invests over 8% of assets under management in private equity.*

SAB are continuing to read and absorb the response, and an update to the Board's website will follow soon. This matter is being considered by the Fund as part of shareholder and investment workstreams.

## Consultations

N/A

## Implications:

This item has the following implications, as indicated:

## Risk management

Without the required knowledge and skills, those charged with governance and decision making may be ill-equipped to make informed decisions regarding the direction and operation of the Pension Fund.

## Local Government (Access to Information) Act 1985

### List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

