

## **Lancashire Local Pension Board**

Meeting to be held on Tuesday, 2 April 2024

Electoral Division affected:  
N/A;

### **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 effectively.

#### **Recommendation**

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

### **Detail**

#### **1. McCloud**

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.

LPPA have a McCloud Project, the focus of which is on implementing systems functionality, and supporting employers who have yet to confirm the accuracy of historic hours and service break data. The accuracy of the new McCloud calculations depends on data being correct, and LPPA and Fund officers have been chasing employers regarding this. Verified data now covers 93% of membership.

After 31 March 2024, LPPA will stop actively chasing employers for this information, and will assume that data held is complete and accurate when applying McCloud eligibility flags to member records and then applying the underpin as appropriate.

Should any employer subsequently provide updated information or members query their entitlement, LPPA will ensure that the members records are updated accordingly.

Once data verification flags are assigned to member records LPPA will be able to identify which members are in scope of the remedy, following which the scale of the



task will be known. However, it is anticipated that less 1% of active members will be within scope.

## **2. Cost control mechanism**

A judicial review hearing in the High Court concluded on 22 February 2024, and the judgement reserved in relation to the Government's handling of the McCloud remedy costs.

Under the Scheme Advisory Board (SAB) cost control mechanism, scheme costs across all LGPS Funds are measured at each actuarial valuation and if costs move too far from a target cost, then member benefits or contributions must be adjusted to return costs to the target level. The government decided that the McCloud remedy should be included in the costs for comparison against the target cost.

The Court is deciding whether the Government's decision to pass the remedy costs on to members in this way is lawful. When the judgement comes, it will determine whether LGPS Funds may need to revisit member benefits and/or contributions as part of that process.

It should be noted that the SAB cost control mechanism operates independently of another cost control mechanism within remit of HM Treasury which is focused on employer contributions.

## **3. Pensions Dashboards**

The connection deadline for all schemes is 31 October 2026, however, connection will be staged with the connection date expected to be September 2025 for LGPS. This is expected to be confirmed by the Money and Pensions Service in Spring 2024.

Also, in Spring 2024, the National Audit Office will be investigating the Pensions Dashboard Programme (PDP) including what has caused delays in implementation and what progress has been made in resetting the programme.

The PDP has published a blog outlining plans for the launch of a user testing and planning group which will be pivotal in planning and coordinating user testing activity. Insights from the user group will help to inform when dashboards may become publicly available.

In addition, there are plans to establish a connection working group for potential dashboard providers in 2024, once FCA rules have been finalised. You can access the blog here: [How PDP is engaging with industry | Pensions Dashboards Programme](#)

LPPA have a Pensions Dashboard Project which covers system development and data cleansing work and there are no current concerns with regards the proposed deadline.



#### **4. Abolition of the Lifetime Allowance**

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.

On 22 February 2024, the Finance Bill 2023/24 received Royal Assent, following readings in the House of Lords. This contains provision for the abolition of the lifetime allowance (that is, total amount a member can build up in their pensions savings without incurring a tax charge) and its replacement by two new lump sum allowances.

The two new lump sum limits restrict the amount of tax-free cash an individual can take over their lifetime but as with the lifetime allowance, most LGPS members will not be affected by the new lump sum limits.

The Lump Sum Allowance limit (LSA) is £268,275 applicable to lump sums paid on retirement. The Lump Sum and Death Benefit Allowance (LSDBA) is £1,073,100.

The latest HMRC lifetime allowance newsletter published in February 2024 can be seen here [Lifetime allowance guidance newsletter — February 2024 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/newsletters/lifetime-allowance-guidance-newsletter-february-2024)

LGA are currently working to provide LGPS specific guidance.

#### **5. Public Service Pension Indexation and revaluation**

HM Treasury has confirmed that public service pensions will be increased by 6.7% in April 2024, in line with the increase in the Consumer Prices Index in the 12 months from September 2022 to September 2023.

Active pension accounts will be revalued on 6 April 2024 and deferred benefits and pensions in payment will be increased from 8 April 2024.

Member contribution bands will also increase from 1 April 2024 by 6.7% to reflect the increase in the September 2023 Consumer Price Index figure.

#### **6. SAB Annual Report Guidance**

A working group was established to review the 2019 guidance to streamline and bring the content up to date.

Draft guidance was approved by the SAB's Compliance and Reporting Committee and the Chartered Institute of Public Finance and Accountancy Public Finance Management Board in February 2024.

The guidance will be submitted for ministerial approval in time for it to be in place from April 2024. It will apply to 2023/24 annual reports which are due for publication



by 1 December 2024. It is acknowledged that the timescale for implementation is tight, and the guidance says that pension funds should use their best endeavours to full comply but exercise judgement, where it would require disproportionate effort or cost.

## **7. SAB Surpluses Working Group**

On 20 December 2023 SAB issued a statement on surpluses to help LGPS fund officers, scheme employers, Committee and Board members to consider how surpluses can be managed and administered.

SAB's working group have identified four key areas- contribution stability, tailored employer investment strategies, 'partial' employer terminations and contribution rate reviews between formal actuarial valuations, as potential strategies for managing surpluses.

As stated in the last regulatory update, the Fund has received a very small number of employer queries following the 2022 valuation and will continue to communicate with employers around these topics. In addition, planning on pre-work required ahead of the 2025 valuation has been undertaken and reflected in the Fund's strategic plan.

## **8. General Code of Practice**

The new General Code of Practice has been laid in parliament and is expected to come into force on 27 March 2024. This new merged Code contains 51 modules in 5 sections and replaces the Code of Practice (no.14) for Public Service Pension Schemes (PSPSs).

All schemes, including Public Sector Pension Schemes, should now be planning how to assess their compliance with the new Code, particularly any new or updated aspects within the new code.

TPR have advised that where schemes have undertaken a gap analysis, they will take a pragmatic view to demonstrating compliance, but it is important that schemes have a plan in place including timescales for demonstrating compliance. Fund officers have previously updated the Local Pension Board on the impact assessment undertaken and will report back in accordance with timescales within the strategic plan.

## **9. 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 had its second reading in the House of Lords on 20 February 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.



## 10. Budget 2024

New reporting requirements for the LGPS were confirmed in the Spring Budget on 6 March 2024, which will require LGPS Funds to provide a summary of asset allocation, including UK equity investment, as well as provide greater clarity on the progress of pooling, using a standardised data return. This requirement is effective from April 2024. Further details from the Budget are as below:

- **Headlines** – 2% cut to National Insurance contributions (in addition to 2% cut in the Autumn Statement), an extension to the windfall tax on the oil and gas sector, “British ISA” covering tax-free investments up to £5,000 per year in UK firms and changes to child benefit thresholds;
- **Tax changes** - rise in taxes on non-economy flights, a new tax on vapes, scrapping of the existing “non dom” tax breaks for wealthy individuals and extension to the windfall tax on the oil and gas;
- **UK investment** – as referenced above, LGPS Funds will be required to disclose asset allocations, including UK equities. This focus on UK equities is a change or evolution in government position as previously interest has focused on private equity and levelling up in the UK; and
- **Specific investment** - in children’s social care is referenced with the Budget document stating the government will “work with the Local Government Pension Scheme to consider the role they could play in unlocking investment in new children’s homes”. Further clarity will be needed on this and consideration in the context of Funds fiduciary duties.

### Consultations

N/A

### Implications:

This item has the following implications, as indicated:

#### Legal

n/a

#### Finance

n/a

#### 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
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N/A

Reason for inclusion in Part II, if appropriate

N/A

