

**Lancashire Local Pension Board**

Meeting to be held on Tuesday, 15 October 2024

Electoral Division affected:  
N/A;

**Regulatory Update**

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**Brief Summary**

This report sets out an update on various pension related regulatory issues and industry news to assist Board members to exercise their functions effectively.

**Recommendation**

The Board is asked to consider and comment on the content of the report.

**Detail**

**1. Central Government Changes**

Following the June 2024 General Election, Angela Rayner was appointed Deputy Prime Minister and Secretary of State for Levelling Up Housing and Communities. The Department for Levelling Up, Housing and Communities (DLUHC) subsequently reverted to its former name, the Ministry of Housing, Communities and Local Government (MHCLG).

Jim McMahon MP was appointed Minister of State for Housing, Communities and Local Government, a role with ministerial responsibility for the Local Government Pension Scheme (LGPS).

Emma Reynolds MP was appointed as Pensions Minister for both the Department for Work and Pensions (DWP) and His Majesty's Treasury (HMT). As this appointment covers both departments, it is expected that there will be a more joined up approach to pensions policy.

**2. HMT Pension Review**

In the King's Speech on 17 July 2024, it was announced that a Pension Scheme Bill will be brought forward to strengthen pension investment, increase saver returns,



tackle waste in the pensions system and support the Government's mission to deliver growth.

Ahead of the introduction of the Pension Schemes Bill a landmark pensions review has been launched, initially focused on "investment" with initial findings to be reported later this year. A second phase will start later in the year to consider steps to improve pension outcomes, including assessing retirement adequacy.

The review will be led by HM Treasury, Department for Work and Pensions Minister Emma Reynolds MP. The review will also work closely with the Minister of State at MHCLG Jim McMahon to look at how tackling perceived fragmentation and inefficiency can unlock the £360bn investment potential, of, and reduce the £2bn spent on fees in, the Local Government Pension Scheme (LGPS) in England and Wales.

To inform the first phase of the Pensions Investment Review, the Government published a [Call for Evidence](#) on 5 September 2024, with a closing date for responses by 25 September 2024. This phase of the review focuses on LGPS and Defined Contribution pension arrangements with the Call for Evidence requesting insight on how pooling has impacted on investment outcomes and access to different asset classes within the LGPS, as well as potential consolidation and greater investment within the UK in the future. A response to the Call for Evidence has been issued on behalf of the Lancashire County Pension Fund.

Also, as part of engagement with the industry relating to HMT's pension review, the new Chancellor, Rachel Reeves, met with the major public pension funds in Toronto, Canada on 7 August 2024, to learn lessons from the Canadian model and what the LGPS can leverage to fire up the UK economy.

The engagement identified several similarities including that the retirement income systems is comparable i.e. they both have a state pension, tax-advantaged private pension arrangements and defined benefit public sector schemes along with a successful funded model and desire to tackle climate risk and carbon transition challenges. The main difference is that the UK, only has one funded public service pension scheme- the LGPS. The other UK public schemes are unfunded.

### 3. Cost control mechanism

There are two cost control mechanisms in the LGPS in England & Wales and both processes may lead to changes in the scheme design or to the level of members' contributions if the mechanisms demonstrate that the costs of the LGPS have moved sufficiently from the individual target. The processes are –

- **The Scheme Advisory Board Cost Management Process** (required under Regulation 116 of the LGPS regulations) which has target costs for employer and employee contributions, and if they have risen or fallen outside a target level then SAB will make recommendations to bring them back in target to ensure that the scheme remains affordable and sustainable.
- **His Majesty's Treasury Cost control mechanism** which is focussed on employer contributions and has a role in standardisation of the cost control processes across public service pension schemes.



On 31 July 2024, The Government Actuary Department published the results of the LGPS Scheme Advisory Board (SAB) cost assessment as at 31 March 2020 in accordance with the LGPS Regulations 2013. This identified that scheme costs are slightly above the target level – with actual costs of 20.5% of pensionable pay against a target of 19.5%. However, SAB have flexibility as to whether to recommend changes if actual costs are within 3% of target.

The SAB outcome was found to be consistent with the cost control mechanism by HM Treasury earlier in the year and as expected the report concluded that SAB will not be making any recommendation for benefit changes to the LGPS.

#### **4. Review of fund valuations as at 31 March 2022**

The Government Actuary's Department (GAD) was appointed by the MHCLG to report under section 13 of the Public Service Pensions Act 2013, on whether the following aims were achieved in connection with the 2022 valuations: compliance, consistency, solvency, and long-term cost efficiency.

Every 3 years, each Pension Fund within the LGPS in England and Wales is required to undertake a valuation to assess the financial health of the fund. This was last undertaken in 2022. The above report covers the valuation outcomes across all funds.

Overall, the results for the LGPS were very positive. However, GAD made three recommendations for the England and Wales Scheme Advisory Board to consider ahead of the upcoming 2025 valuations. These were –

- consider whether greater consistency could and should be achieved to allow easier comparison between funds and better understanding of risks.
- continue to consider emerging issues and, where appropriate, whether guidance would be helpful to support greater consistency, including greater consistency on climate risk; and,
- consider, where funds are in surplus, whether additional guidance can be provided to support funds in balancing different considerations.

#### **5. McCloud**

The McCloud Remedy project is an ongoing activity in respect of the McCloud judgement which in December 2018 ruled that members of public service pension schemes had been unlawfully discriminated against because protections did not apply to them when the Government had reformed these schemes in 2014 and 2015.

Underpin calculations have now started to be applied for eligible members who are progressing through the retirement process. To date, 7 cases have been processed for the Lancashire County Pension Fund where an underpin has applied.



Functionality to revisit historic cases is not available to LPPA until October 2024, enabling the bulk processing of these cases to start.

#### Inclusion of the 'underpin' in annual benefit statements.

Shortly before the 2024 annual benefit statement deadline, MCHLG laid regulations removing the requirement for the McCloud 'underpin' to be reflected in 2023/24 annual benefit statements (ABS's) for LGPS members. These regulations were welcomed to prevent large scale breaches of the law, which would have required most pension funds including Lancashire, to report a breach to the Pensions Regulator.

In addition, the regulations give flexibility in next years' ABS for administering authorities to determine that for specific members (or classes of members) McCloud does not need to be reflected in their 2024/25 ABS's either. This may be useful if any challenges arise in implementing the McCloud remedy for specific groups of members.

At the last meeting of the Board, an update was provided on guidance issued by MHCLG. Since then, further guidance has been issued by the GAD on application of actuarial guidance on the McCloud remedy to retrospective cases – this covers how to deal with the retrospective re-calculation of members benefits in different situations (for example, early retirement, late retirement, trivial commutation).

## **6. Pensions Dashboard**

An update on dashboard developments is provided elsewhere on the agenda.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

#### **Legal**

It is prudent for Board members to be apprised of any risks posed and opportunities afforded by legal and regulatory change.

#### **Financial**

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

