

PENSIONS COMMITTEE

14 June 2023

Title: Independent Advisors LGPS Update	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Director: Philip Gregory, Chief Financial Officer	
Accountable Strategic Leadership Director: Fiona Taylor, Chief Executive	
Summary	
This report provides Members with the Independent Advisor's quarterly Local Government Pension Scheme update.	
Recommendations	
The Committee is recommended to note:	
<ul style="list-style-type: none">• Changes to the Scheme Advisory Board (SAB) Cost Management process.• Changes to Pension Taxation.• Further Consultation on "McCloud" (Age Discrimination in the LGPS).• Climate Change Reporting, and• Investment Pooling.	

1. Introduction

1.1 This paper informs and updates the Committee in respect of a number of important issues relating to the LGPS at a national level. The issues covered in this paper are:

- Changes to the Scheme Advisory Board (SAB) Cost Management process.
- Changes to Pensions Taxation.
- Further Consultation on "McCloud" (Age Discrimination in the LGPS).
- Climate Change Reporting.
- Investment Pooling.
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2. Independent Advisor Update: John Raisin

Changes to the Scheme Advisory Board (SAB) Cost Management process

- 2.1 The March 2023 LGPS Update (which was finalised on 2 March 2023) included a briefing on the Cost Management process introduced into the LGPS as a consequence of the Public Service Pensions Act 2013. This included reference to the two Cost Management mechanisms applicable to the LGPS – the employer cost cap (ECC) process as operated by HM Treasury and the future service cost (FSC) as operated by the LGPS Scheme Advisory Board (SAB).
- 2.2 The March update also informed the Committee that on 30 January 2023 DLUHC launched a Consultation (which closed on 24 March 2023) entitled “Local Government Pension Scheme: Changes to the Scheme Advisory Board Cost Management Process” The Consultation aimed to update the SAB process in light of the 2021 changes to the HM Treasury cost control process and to provide the SAB with greater flexibility in how it responds to any cost variations. The SAB submitted a response to this Consultation in March 2023, which was generally supportive of the Government’s proposals.
- 2.3 On 11 May 2023 Government published its response to the Consultation on changes to the SAB’s cost management process and also issued The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2023 which come into force on 1 June 2023. The changes introduced by the new Regulations better align the SAB’s cost management process with HM Treasury revised cost control process of 2021. They also give the Scheme Advisory Board greater flexibility in the making of recommendations to the Secretary of State.

Changes to Pensions Taxation

- 2.4 In his Spring Budget of 15 March 2023, the Chancellor of the Exchequer announced significant changes to the pensions taxation regime applicable to both private sector and public sector (including the LGPS) pensions. The Chancellor announced that the Annual Allowance (the maximum amount of pensions savings an individual can make each year before incurring a tax charge) is to increase from £40,000 to £60,000 from 6 April 2023, with individuals continuing to be able to carry forward unused Annual Allowances from the three previous tax years. The Chancellor also announced his intention to abolish the Lifetime Allowance which was £1,073,100 at the time of the Spring 2023 Budget.
- 2.5 Most members of the LGPS have never earned enough to be within the scope of either the Annual or Lifetime Allowance. However, increasing numbers of senior managers have become subject to these taxation provisions in recent years and this trend was set to continue and increase as the Government appeared to be likely to freeze these allowances over the long term. The increase in the Annual Allowance and the abolition of the Lifetime Allowance means that almost all members of the LGPS will now be exempt from the

pension's taxation regime. These changes will also simplify LGPS benefit calculations/entitlements.

Further Consultation on "McCloud" (Age discrimination in the LGPS)

- 2.6 The Public Service Pensions Act 2013 which reformed all the major public service pension schemes from 2014 or 2015 (fundamentally by replacing final salary with career average salary as the basis for the calculation of benefits) included provision for protections for older members designed to ensure they would not be worse off as a result of the introduction of the new schemes. In 2018 the Court of Appeal ruled that in the case of the Judges' and Firefighters Pension Schemes this was (age) discriminatory against younger members. In July 2019, the Government confirmed that there would be changes to all public service pension schemes, including the LGPS, to remove this age discrimination. This whole issue is now commonly referred to as "McCloud."
- 2.7 On 16 July 2020, the then MHCLG issued a Consultation called "Amendments to the statutory underpin" to address the age discrimination identified in the LGPS. On 6 April 2023 the DLUHC issued its response to the 2020 Consultation detailing how it will proceed. On 30 May 2023 DLUHC issued a further Consultation "'McCloud' remedy in the LGPS – supplementary issues and scheme regulations" together with draft Regulations regarding the "McCloud" remedy. This Consultation closes on 30 June 2023.
- 2.8 In this latest Consultation the Government is seeking views where in its 6 April 2023 response it stated it would be reconsulting to obtain further views, and also on issues which were not addressed in the 2020 Consultation. At the same time the Government is seeking feedback on draft Regulations which would implement the (entire) "McCloud" remedy. It is intended these Regulations come into force on 1 October 2023. Assuming that the Regulations come into effect from October 2023 LGPS Pension Funds will review qualifying members pensions to determine any effects on individuals. It should however be pointed out that most individual members will not experience any increase in the benefits they ultimately receive as a result of "McCloud" – this is because the pension they build up in the present career average scheme will be higher than what they would have built up in the previous final salary scheme.

Climate Change reporting

- 2.9 In the March 2023 LGPS Update it was reported that it was anticipated that Regulations to introduce Climate Change reporting into the LGPS would be issued retrospectively, after 1 April 2023, but would apply from 1 April 2023. No such Regulations were, however, issued in April 2023.
- 2.10 On 23 May 2023 the Scheme Advisory Board stated on its website that the implementation of Climate Risk reporting in the LGPS – "is now expected to commence from 1 April 2024, with first reports due in late 2025."

Investment Pooling

- 2.11 A consultation on the further development of Investment (Asset) Pooling has been expected since 2019. On 9 December 2022 the Chancellor of the Exchequer Rt Hon Jeremy Hunt MP stated that the Government “Will, in early 2023, consult on new guidance to the Local Government Pension Scheme (LGPS) in England and Wales on asset pooling.”
- 2.12 On 15 March 2023 the Chancellor of the Exchequer announced his Spring Budget 2023. The SPRING BUDGET 2023 red book which sets out in full the Chancellor of the Exchequer’s Spring Budget 2023 included the following:
- **4.116 Local Government Pension Scheme investment** – The government is challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets – a forthcoming consultation will propose LGPS funds transfer all listed assets into their pools by March 2025, and set direction for the future. This may include moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale. While pooling has delivered substantial benefits so far, progress needs to accelerate to deliver, and the government stands ready to take further action if needed. The Government will also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets.
- 2.13 As at the date of finalising this LGPS Update (1 June 2023) no Consultation on the future of Investment Pooling has been issued by the DLUHC. If anything is issued this year it will (almost certainly) just be a Consultation – not actual new Regulations/Statutory Guidance. This is because a major Consultation normally lasts for three months, and the Government then considers all the responses received, and issue its reply to these before then issuing the consequent Regulations and/or Statutory Guidance.
- 2.14 Any Consultation on the further development of Investment Pooling will doubtlessly result in many, and varied, responses from not only individual LGPS Funds but also a range of other LGPS stakeholders. Given the response to the (subsequently withdrawn) 2019 Investment Pooling Consultation which included suggestions of legal challenge, and the judgement of the Supreme Court in a 2020 case concerned with LGPS Regulations, the DLUHC will doubtlessly very carefully consider not only the proposals in any Consultation it issues, but also how it responds to responses to the Consultation, and the nature of the final Regulations and/or Statutory Guidance issued. Therefore, any new Investment Pooling regime is unlikely to be finalised before 2024.

3. Financial Implications

Implications completed by: Philip Gregory, Chief Financial Officer

- 3.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The management of the administration of benefits the Fund is supported and monitored by the Pension Board.

4. Legal Implications

Implications completed by: Dr Paul Feild Senior Governance Solicitor

- 4.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

5. Consultation

- 5.1 The Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers. The Finance Director and the Fund's Chair have been informed of the commentary in this report.