

# SURREY PENSION FUND COMMITTEE REPORT



SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 DECEMBER 2024

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

SUBJECT: RECENT DEVELOPMENTS IN LGPS (BACKGROUND PAPER)

## **SUMMARY OF ISSUE:**

This report considers recent developments in the Local Government Pension Scheme (LGPS).

## **RECOMMENDATIONS:**

It is recommended that the Pension Fund Committee:

1. Note the content of this report.

## **REASON FOR RECOMMENDATIONS:**

The report provides background information for the Committee.

## **DETAILS:**

### **Highlights**

#### **1. Consultation launched on pooling of LGPS investment funds**

Based on responses to the former consultation on proposals to accelerate and expand the pooling of LGPS assets, and responses to the Pensions Review Call for Evidence, government have launched a consultation to look at how tackling fragmentation and inefficiency can unlock the investment potential of the scheme. More can be found in paragraphs 5 and 8.

#### **2. Consultation launched on Inheritance Tax on pensions**

Proposal for death benefits to be included in valuing a person's estate for Inheritance Tax purposes. More can be found in paragraph 6.

#### **3. Further McCloud Regulations laid**

Regulations laid to preclude the McCloud underpin figures in Annual Benefit Statements provided to 31 August 2024 for affected members. More can be found in paragraph 16.

#### 4. Pensions Dashboards

As the LGPS moves closer to the connection date of 31 October 2025, the LGA issues guidance on connection and AVCs. More can be found in paragraph 27.

#### LGPS Updates

5. [HM Treasury published the Terms of Reference](#) for Phase One of the Review, confirming focus will be on investments, driving scale and consolidation in defined contribution workplace schemes and the LGPS. On 4 September 2024 the Government published a [Call for Evidence](#) inviting input, data and information from interested parties to inform the first phase of the Pension Investment Review. The Call for Evidence closed on 25 September 2024 and responses have been sent from the [Local Government Pensions Committee \(LGPC\)](#) and the [SAB](#). The second stage of the Pensions Review is expected to look at the issue of pensions adequacy and fairness, such as the gender pensions gap.
6. Within the [Budget](#) on 30 October 2024 the Chancellor announced the death benefits payable from a pension will be included within the value of a person's estate for Inheritance Tax purposes from 6 April 2027 and pension scheme administrators will become liable for reporting and paying any Inheritance Tax due to HMRC. A [consultation](#) on the proposals was launched on the same day which closes on 22 January 2025.
7. Also announced within the Budget was a change to the measure of public debt for the government's fiscal targets from Public Sector Net Debt (PSND) to Public Sector Net Financial Liabilities (PSNFL), meaning the funding position of the LGPS as a whole, can have a more direct impact in the amount the government can borrow and invest in the UK economy.
8. On 14 November 2024 the Chancellor gave her Mansion House speech and within this announced a series of reforms to the pensions sector, specifically for the LGPS, the consolidation of LGPS assets into fewer, larger pools of capital. An [interim report](#) was published on the same day setting out the proposals, together with the interim findings of Phase 1 of the Pensions Review launched in July 2024. The report was also accompanied with the publication of a consultation [LGPS: Fit for the future](#), with a closing date of 16 January 2025. The consultation seeks views on proposals relating to the investments of the LGPS, with three main areas:
  - a) Reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model in line with international best practice with the minimum standards proposed as:
    - i- requirement for administering authorities to fully delegate the implementation of investment strategy to the pool and to take their principle advice on their investment strategy from the pool,

- ii- pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies,
  - iii- requirement for administering authorities to transfer legacy assets to the management of the pool.
- b) Boosting LGPS investment in their localities and regions in the UK by requiring administering authorities to:
- i- set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities,
  - ii- work with local authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities,
  - iii- set out their local investment and its impact in their annual reports.

Pools would then be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.

- c) Building on the recommendations of the Scheme Advisory Board's Good Governance Review in 2021, strengthening the governance of both LGPS administering authorities and LGPS pools by:
- i- requiring committee members to have the appropriate knowledge and skills,
  - ii- requiring administering authorities to publish a governance and training strategy, including a conflicts of interest policy, as well as an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether administering authorities are fully equipped to fulfil their responsibilities,
  - iii- requiring pool boards to include representatives of their shareholders and to improve transparency.
9. The Ministry for Housing, Communities and Local Government (MHCLG) published the LGPS statistics for England and Wales on 24 October 2024. This showed:
- a) an increase of 11.9% on total expenditure since 2022/23,
  - b) an increase of 19.3% on total income since 2022/23,
  - c) an increase of 24.6% on employer contributions since 2022/23, this reflects early payment of employer contributions following the triennial valuation,

- d) an increase of 8.3% on employee contributions since 2022/23,
- e) an increase of 9% on the market value of LGPS funds since 31 March 2023,
- f) an increase of 6.3% on the number of retirements since 2022/23.

10. MHCLG has issued updated guidance on flexible retirement to cover how the McCloud remedy affects calculations for flexible retirement, together with the calculation of a death grant where a member dies after taking flexible retirement.
11. The Local Government Association (LGA) has made improvements to the [lump sum calculator](#) tool on the national LGPS member website, together with introducing a new [maximum AVC lump sum calculator](#). Both calculators reflect the lump sum limits in force since April 2024.
12. The LGA have published legal advice on payment of death grants to genealogy companies.
13. The LGPS Governance Conference which takes place on 30 and 31 January 2025 in Bournemouth, is [open for booking](#). The conference can be attended in person or online and is aimed at councillors and others who attend pension committees and local pension boards.
14. The National LGPS Technical Group have agreed to replace the group with a new group called the National Pension Officer Group (NPOG) as it was felt the role of the group as initially intended when set up, was now much covered by the Local Government Association in aiding with technical queries and understanding of the regulations. NPOG will instead focus on providing a strategic approach to scheme administration issues along with practical advice.
15. The Office for National Statistics announced on 16 October 2024 the Consumer Prices Index (CPI) rate of inflation for September 2024 was 1.7%. It is yet to be confirmed by Government that this rate will apply to revaluation and pensions increase from April 2025 for LGPS benefits.

## McCloud

16. The [LGPS \(Information\) Regulations 2024](#) were laid on 28 August 2024 and came into force on 23 September 2024 with backdated effect to 1 October 2023. These regulations remove the requirement to include estimated underpin information in the 2024 Annual Benefit Statement's (ABS), which had to be issued by 31 August 2024, however, underpin information must be included in 2025 ABS. The regulations also provide a discretion to not include the underpin for a particular class of members for the 2025 statements, but this cannot be used as a blanket approach for all statements. Where authorities choose to use this discretion, the affected members must be informed.
17. The LGA have updated the technical guide on annual benefit statements to reflect their understanding of what must be included as a result of the McCloud remedy and the introduction of pensions dashboards from 2025.

18. The LGA have published a second instalment of the McCloud administration guide. The initial instalment included an overview of which pension accounts qualified for underpin protection and how to perform the provisional and final underpin calculations. The update includes other calculations impacted by the underpin such as transfers in and revisiting past calculations. They have also significantly updated the section on which accounts qualify for protection after considering the Statutory guidance issued by the Government.
19. The LGA held webinars in October 2024 covering McCloud generally and transfers and will consider more McCloud webinars next year should there be demand.
20. The Teachers' Pension Scheme (TPS) have [updated the timeline for excess service cases](#) and communications are being sent to employers based on region. Once employers have completed the first stage by verifying the service details held by TPS for those affected, the next stage is for employers to provide the information to administering authorities to enable LGPS records to be created. TPS is finalising the template for these final stages and the LGA will advise as soon as the template is available.
21. Errors have been identified in Club transfer out quotations provided by the TPS for members affected by the McCloud remedy and they are investigating the matter.
22. The Government Actuary's Department (GAD) have confirmed how to record extra payments due to the underpin in GAD transaction data and that these payments should be treated as a transaction relating to the career average main section (even where the member was in the 50/50 section), in the Scheme year in which payment was received.
23. The LGA have published forms for administering authorities to use to collate information from members about any public service pensions history where it would appear, based on information and membership held in a particular fund, the member is not to be protected by the McCloud remedy.
24. The Cabinet Office have confirmed in their view for the purposes of extending the 12 month deadline due to exceptional circumstances for Club transfers, the McCloud remedy can be considered as such but administering authorities would need to agree this with the receiving scheme.
25. The LGA requested administering authorities to complete a survey by 3 November 2024 about how schemes are planning to revisit past Club transfers. This was required as GAD are gathering data about how public service pension schemes are planning to approach revisiting these transfers so this can be taken into account when they produce any cross-scheme guides or other resources.

## Pensions Dashboard Programme (PDP)

26. The Department of Work and Pensions (DWP) published a [ministerial statement](#) on 22 October 2024 confirming the Government's commitment to the [existing timetable](#) for schemes to connect to the ecosystem. The statement also confirms Government's commitment to the delivery of the dashboards and that the PDP will focus on the connection and launch of the MoneyHelper dashboard before working on the connectivity of commercial dashboards, thereby prioritising the launch of the government backed dashboard initially.
27. The LGA have published the [Pensions Dashboards connection guide](#) and the [AVCs and Pensions Dashboards administrator guide](#). The connection guide aims to assist administering authorities identify the steps required to connect to the pensions dashboards ecosystem and whilst it does not duplicate information elsewhere, it does provide a summary of each topic together with links to the information. Authorities will need to create a project plan to implement dashboards and this guide will assist with the actions, decisions and recommended timings to enable connection by 31 October 2025. The AVCs and Dashboards administrator guide aims to establish common approaches on the preparation and provision of AVC view data to the pensions dashboards ecosystem.
28. The PDP updated its [draft code of connection](#) with mostly technical or terminology clarifications. The draft code sets out how pension providers, schemes and dashboard providers are to connect to the dashboards ecosystem. Chris Curry, PDP Principal published a [blog](#) on the updated code of connection.
29. The PDP published version 1.1 of the [draft technical standards](#) along with further resources covering [guidance on the step-by-step connection journey](#) about connecting to the ecosystem, [support for testing connection to the ecosystem](#), answers to more [queries on connection timelines and registration codes](#).
30. The [PDP has confirmed](#) users of pensions dashboards will verify their identity with GOV.UK One Login which will make it easier for those who have previously registered with One Login for other Government service.
31. The Pensions Regulator (TPR) published the [Pensions dashboards compliance and enforcement policy](#), together with a [response](#) to the consultation on the policy and have updated its [breach of law guidance](#). TPR also published a [blog on pensions dashboards compliance](#) to accompany the policy release.
32. TPR expects schemes to connect to the dashboards ecosystem in line with the timetable set in [DWP's guidance on connection: the stage timetable](#).
33. From 15 October 2024 TPR will be contacting pension schemes in scope of dashboards to ensure they have the correct processes and controls in place around data and will be challenging schemes unable to demonstrate how they meet TPR's record-keeping expectations, which can be found in the [general code of practice](#).

34. TPR will be sending all scheme managers two surveys at key points in their journey to their connect by date which will provide TPR with useful insights into the industry's readiness and identify where any gaps may lie. For Public Service Pension Scheme (PSPS) the first survey is expected in November 2024.
35. TPR has produced a '[hot topics](#)' article focusing on some of the issues it is hearing about through engagement with the industry.
36. The Pensions Administration Standards Association (PASA) have published the first content in its new [Dashboards Toolkit](#), which will be updated over time. The first release includes information to consider in relation to Additional Voluntary Contribution (AVC) data.

### **Scheme Advisory Board (SAB)**

37. The Ministry of Housing, Communities and Local Government (MHCLG) appointed the GAD to review and report on [the 2022 fund valuations](#) in accordance with section 13 of the Public Service Pensions Act 2013. The purpose of the report is to examine whether the 87 separate fund valuations have achieved the four aims as set out in the Act, being compliance, consistency, solvency and long-term cost efficiency. The report includes three recommendations for the SAB which are being considered.
38. The Board Secretariat [wrote to MHCLG](#) officials asking for a review of the regulations and actuarial factors used in shared cost additional pension contributions (SCAPCs) and is one of the first recommendations of the Gender Pensions Gap working group.
39. The SAB have been revising the guidance for funds to follow when reviewing their Funding Strategy Statement (FSS) and the guidance is nearing the final stages awaiting the approval process and it is hoped will be available before the end of the calendar year.
40. The SAB issued a [statement of fiduciary duty and dealing with lobbying](#) and it is hoped this will help administering authorities deal with increasing levels of interest in how LGPS funds are invested and manage discussions with stakeholders and at board and committee meetings.
41. Following on from the above the SAB is aware a number of administering authorities have received letters alleging they are acting unlawfully by holding and failing to divest from investments in companies which have been linked to the ongoing situation in the Middle East. The SAB therefore sought [leading Counsel advice](#) on behalf of the Scheme.
42. The SAB Secretariat is seeking an opinion from Counsel on whether there is a need to update the [previous advice received on the nature of fiduciary duty](#) for administering authorities.

## His Majesty's Revenue and Customs (HMRC)

43. Following the technical inaccuracies in the legislation introduced to implement the new regime following the abolition of the Lifetime Allowance (LTA), [The Pensions \(Abolition of Lifetime Allowance Charge etc\) \(No.2\) Regulations 2024](#) and [The Pensions \(Abolition of Lifetime Allowance Charge etc\) \(No.3\) Regulations 2024](#) were laid in October 2024 and came into force on 18 November 2024. Amendments include corrections to LTA protections, new provisions relating to Transitional Tax-Free Amount Certificates (TTFAC) and the calculation to determine valuing a member's benefits when paying a Trivial Commutation Lump Sum.

## The Pensions Regulator (TPR)

44. TPR sent out scheme return notices to managers of public service pension schemes in October 2024, which must be returned within six weeks of receiving the notification.

45. Following the publication by TPR of a [case report](#) detailing how 245 victims were defrauded in a £13.7 million scam, TPR in association with the Pension Scams Action Group (PSAG) have launched a [new video](#) featuring a critical care nurse who was scammed out of her retirement pension.

46. On 22 October 2024 TPR published its [digital, data and technology strategy](#), which describes a set of missions over a 5 year plan on how TPR wishes to adapt and embrace changing technology together with a changing pensions market in an effort to drive better outcomes for savers, whilst reducing burden on pension schemes and asks the industry to work with them to achieve this.

## The Pensions Ombudsman (TPO)

47. TPO published its [corporate plan](#) outlining priorities and areas of work for the year with top priorities.

48. TPO celebrated Ombuds Day on 10 October 2024 with a [blog](#) raising awareness and understanding of TPO's services.

## Other News and Updates

49. The Money and Pension Service (MaPS) have now [launched](#) digital Pension Wise appointments for anyone over the age of 50 with a defined contribution pension.

## CONSULTATION:

50. The Chair of the Pension Fund Committee and/or Chair of the Local Pension Board.

## RISK MANAGEMENT AND IMPLICATIONS:

51. Any relevant risk related implications have been considered and are contained within the report.



### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:**

52. Any relevant financial and value for money implications have been considered and are contained within the report. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

### **LEGAL IMPLICATIONS:**

53. There are no legal implications or legislative requirements.

### **EQUALITIES AND DIVERSITY:**

54. There are no equality or diversity issues.

### **OTHER IMPLICATIONS:**

55. There are no other implications.

### **NEXT STEPS:**

56. No next steps are planned.

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### **Contact Officer:**

Colette Hollands, Head of Accounting and Governance.

### **Annexes:**

1. None.

### **Sources/Background papers:**

1. None.

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