



SURREY LOCAL PENSION BOARD REPORT

SURREY COUNTY COUNCIL

SURREY LOCAL PENSION BOARD

DATE: 21 FEBRUARY 2025

LEAD OFFICER: NEIL MASON, LGPS SENIOR OFFICER

SUBJECT: LGPS – BACKGROUND PAPERS

SUMMARY OF ISSUE:

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

RECOMMENDATIONS:

It is recommended that the Local Pension Board:

1. Note the content of this report.

REASON FOR RECOMMENDATIONS:

The report provides background information for the Board.

DETAILS:

Highlights

Consultation launched on pooling of LGPS investment funds

1. 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 has launched a consultation to look at how tackling fragmentation and inefficiency can unlock the investment potential of the scheme. More can be found in paragraph 8.

Consultation launched on overhauling local audit system in England

2. Following Government's English Devolution White Paper, one of the proposals is uncoupling of fund and administering authority accounts. More can be found in paragraph 9.

Consultation launched on Inheritance Tax on pensions

3. Proposal for death benefits to be included in valuing a person's estate for Inheritance Tax purposes. More can be found in paragraphs 4 and 7.

LGPS Updates

4. Within the [Budget](#) on 30 October 2024 the Chancellor announced that death benefits payable from a pension scheme 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 His Majesty's Revenue and Customs (HMRC). Currently under the LGPS regulations, the administering authority has discretion to whom the death grant is paid to and so is not liable for inheritance tax. The new proposals seek to remove the distinction between discretionary and non-discretionary schemes. A [consultation](#) on the proposals was launched on the same day which closed on 22 January 2025.
5. 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.
6. Other changes within the Budget were:
 - a) the removal of an exclusion for the overseas transfer charge (OTC) from the 30 October 2024 where members transfer to a qualifying recognised overseas pension scheme (QROPS),
 - b) the conditions for a scheme to be an overseas pension scheme (OPS) or recognised overseas pension scheme (ROPS) established in the European Economic Area (EEA) from 6 April 2025, will be brought in line with those that apply to OPSs and ROPs established in the rest of the world,
 - c) From 6 April 2026, all pension scheme administrators of a UK registered pension scheme will be required to be a UK resident. HMRC will provide more detail on this in future newsletters.
7. [The Finance Bill 2024/25](#) is going through Parliament and will enact the changes mentioned above from the Budget, with exception of Inheritance Tax.
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](#) and closed on 16 January 2025. The consultation sought 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.
 - iv- 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 Scheme Advisory Board (SAB) hosted an episode of LGPS Live which included a presentation from the Ministry of Housing, Communities and Local Government (MHCLG) in December and set out the headlines from the LGPS Fit for the Future consultation. The webinar can be viewed along with the slides.

The Local Government Association (LGA) and SAB have responded to the consultation.

10. MHCLG launched an open consultation following the Government's English Devolution White Paper published on 16 December 2024. The consultation sets out proposals for overhauling the local audit system in England and closed on 29 January 2025. Specifically mentioned within the consultation is the proposal to decouple pension fund accounts from administering authority accounts, which has been a SAB recommendation for several years (see also paragraph 33).
11. The Secretary of State for Education laid a [written ministerial statement](#) on 12 November 2024 outlining the Department for Education will provide an LGPS guarantee to Further Education (FE) providers operating in the statutory sector in England. This was followed by the Education and Skills Funding Agency publishing [further guidance](#) about the guarantee which ensures any outstanding LGPS liabilities will not revert to the fund if an English FE body in the statutory sector closes.
12. His Majesty's Treasury (HMT) confirmed in a [letter to the Association of Colleges](#) that the [New Fair Deal guidance](#) will apply to FE colleges from 14 November 2024 that operate in the statutory sector in England. The guidance applies directly to central government departments, agencies and other parts of the public sector under control of the central government, for example academies. The SAB are continuing to engage with MHCLG on how New Fair Deal should apply to the local government workforce.
13. The 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.
14. [The Pensions \(Abolition of LTA Charges etc\) \(No 3\) Regulations 2024](#) were made on 14 November 2024, which were required in relation to the abolition of the Lifetime Allowance (LTA). Within these regulations there is an amendment on valuing members benefits for the purposes of trivial commutation, as the legislation introduced on 6 April 2024 was allowing members to take a trivial commutation where formerly they would not have been able to because of the value of their pension. This amendment now brings this back in line. A [correction](#)

[slip for the No 2 regulations](#) was also made on 18 November 2024. The LGA intend to update their guidance on the abolition of the LTA to reflect the amendments in due course once they have reviewed the legislation.

15. The National LGPS Technical Group agreed to replace the existing group with a new group called the National Pension Officer Group (NPOG). The consensus was the role of the group as initially intended was now covered by the LGA 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.
16. 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.
17. The Government Actuary's Department (GAD) have sent the 2024 valuation data requests to pension managers and includes a brief online questionnaire.

McCloud

18. The LGA 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 LGA published a new Club transfer out and McCloud guide together with a Club transfer calculator, although some complex cases may require manual calculations.
21. The Cabinet Office confirmed in their view the McCloud remedy can be considered as an exceptional circumstance for the purposes of extending the 12-month deadline for Club transfers, but administering authorities would need to agree this with the receiving scheme.
22. 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 considered when they produce any cross-scheme guides or other resources.

Pensions Dashboard Programme (PDP)

23. 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.
24. 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](#).
25. The PDP also published new draft versions of the [reporting standards](#), [data standards](#) and [code of connection](#). All PDP standards remain in draft form until approved by the Secretary of State for Work and Pensions.
26. In December 2024 the PDP published their tenth [progress update report](#) which looks at the progress over the last six months.
27. From 15 October 2024 The Pensions Regulator (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](#).
28. 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.
29. The Pensions Administration Standards Association (PASA) published the first content in its new [Dashboards Toolkit](#), which will be updated over time. This release includes information to consider in relation to Additional Voluntary Contribution (AVC) data.
30. The LGA published an updated version of their Pensions dashboards connection guide.

Scheme Advisory Board (SAB)

31. 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.

32. The SAB sought an update to Counsel's opinion on fiduciary duty obtained in [2014](#) due to the evolving understanding that applies to administering authorities when deciding and implementing responsible investment policies. This has now been [received](#) and the Secretariat will consider if any further advice on specific points would be helpful.
33. The [Funding Strategy Statement \(FSS\) guidance](#) has been updated and approved replacing the 2016 guidance.
34. The [SAB Secretary sent a letter](#) to the Local Government Minister dated 12 November 2024, reconfirming SAB's [previous recommendation](#) to separate pension fund accounts from the administering authority's main accounts.

The Pensions Regulator (TPR)

35. 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.
36. 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.
37. TPR, the Financial Conduct Authority and the Information Commissioner's Office (ICO) have issued a [joint statement](#) on data protection and effective communications.
38. TPR worked with the television program Eastenders where a storyline involved a character falling for a pension scam and it is hoped this will highlight the threats to pension security.

The Pensions Ombudsman (TPO)

39. In TPO's [November 2024](#) update it confirmed going forwards all applicants must exhaust the pension scheme's formal complaint procedure before they will accept the complaint.
40. TPO celebrated Ombuds Day on 10 October 2024 with a [blog](#) raising awareness and understanding of TPO's services. They also published a further [blog](#) reflecting on their progress over the last year.

Other News and Updates

41. The Financial Reporting Council (FRC) launched a [consultation](#) which closed on 19 February 2025 on updates to the UK Stewardship Code. The Code aims to promote long-term value for UK savers and pensioners through effective stewardship of investments on their behalf and some LGPS funds and pools are

signatories to the Code. The updated Code is expected to be published later in 2025 and the first reporting cycle in 2026.

42. The GAD published guidance on staff transfers on 26 November 2024. These are aimed at [employers](#) and [contracting authorities](#) where staff transfer within public sector schemes and [contracting authorities](#) when former public service staff with pension protection move from a private sector broadly comparable scheme back to the public service pension scheme they were originally in.
43. The PASA released new [guidance on data scoring](#), aiming to help pension schemes achieve higher data standards.

CONSULTATION:

44. The Chair of the Local Pension Board and or the Chair of the Surrey Pension Committee have been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

46. Any relevant financial and value for money implications have been considered and are contained within the report.

LEGAL IMPLICATIONS – MONITORING OFFICER:

47. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

48. There are no equality or diversity issues.

OTHER IMPLICATIONS:

49. There are no other implications.

NEXT STEPS:

50. No next steps are planned.

Contact Officer:

Colette Hollands, Head of Accounting and Governance

Annexes:

1. None.

Sources/Background papers:

1. None.