

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 16 JUNE 2023

LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE

SUBJECT: LGPS UPDATE (BACKGROUND PAPER)

**SUMMARY OF ISSUE:**

This report considers recent developments in the LGPS.

RECOMMENDATIONS:

The Pension Fund Committee is asked to note the content of this report.

REASON FOR RECOMMENDATIONS:

The report provides background information for the Committee.

DETAILS:**Highlights**

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| 1 | LGPS CARE revaluation date changed due to inflation | Regulations amended to change the LGPS CARE revaluation date due to high inflation. More information in paragraph 7. |
| 2 | Lifetime Allowance charges abolished in Budget | Following the Spring Budget, Lifetime Allowance charges abolished from 6 April 2023 and increases to Annual Allowance limits. More information in paragraphs 8, 27, 31 and 32. |
| 3 | Consultations proposed on Investment Pooling and investment in illiquid assets | Within the Spring Budget the Chancellor announced the Government will launch 2 new consultations, firstly on LGPS Pooling and secondly on investments and proposals for LGPS funds to consider opportunities in illiquid assets. More information in paragraph 28. |
| 4 | Transfer out quotations suspended following SCAPE discount rate change | Following change to the SCAPE discount rate, new transfer out and divorce quotations suspended from 30 March 2023. Also affected are transfers in, actual transfers out and the splitting of pension following a Pension Sharing Order. Revised factors now received but this has caused some delays in issuing information by the team, who will now work through cases that were put on hold. Other actuarial factors will be affected. More information can be found in paragraph 30. |
| 5 | Delay to Pensions Dashboards | DWP announced delay to Pensions Dashboards Programme. More information can be found in paragraphs 21, 35 and 37. |
| 6 | 2037 State Pension Age increase on hold | Accelerated increase to 68 for State Pension Age from 2037 on hold until next Parliament. More information can be found in paragraph 34. |

LGPS updates

7. DLUHC launched a [short consultation](#) from 10 to 24 February 2023 on changing the annual revaluation date for CARE benefits from 1 to 6 April. The LGPS (Amendment) Regulations 2023 have now been laid and took effect from 31 March 2023. The purpose of the change is to align the revaluation date with the tax year due to the 10.1% increase that will apply to CARE LGPS benefits, had this not been done more members would have exceeded the annual allowance. The amendments also allow protections for those affected so that although the increase takes place on 6th April it will be backdated as if it had taken place on 1st April so there is no loss of benefit. The LGA have published a [special bulletin](#) that looks at the impact of the change of the revaluation date and provides examples.
8. The LGA have issued the [annual update](#) detailing the revised rates applicable from April 2023 for both administrators and employers, e.g. employee contribution rate, additional pension limit, NI limits and thresholds.
9. The Local Government (Structural Changes) (Supplementary Provision and Amendment) Order 2023 was made on 1 March and effective from 1 April 2023. This is to allow for structural changes in Cumbria, North Yorkshire and Somerset.
10. GAD have sent a formal membership data request as at 31 March 2022 to pension managers. This is required for the Section 13 exercise along with assisting with other projects including DLUHC and SAB policy work.
11. The LGPS Governance Conference will be held in York on 18 and 19 January 2024, booking information and the programme will be made available later in the year.
12. The LGA have published a FAQ on backdated pay awards for employers.

Scheme Advisory Board (SAB)

13. The Minister for Local Government has [responded](#) to a letter written to him by the SAB on delays in the external audit of local authority's accounts, including pension fund accounts. The MP has welcomed the advice and recommendation to consider the separation of main authority accounts and pension fund accounts. He has asked his officials to consider the scope for developing this further.
14. The SAB are reviewing and updating the CIPFA guidance on the Knowledge and Skills Framework for committee members and officers.
15. Bob Holloway, the Pensions Secretary to the SAB retired on 24 February 2023.
16. The SAB have updated their [website](#), the content remains the same.
17. The SAB have provided a statement on [Freedom of Information \(FOI\) requests on climate advice and data](#), which provides advice on dealing with such requests due to the increase for requests of information about responsible investment policies.
18. The SAB have published a report on the [gender pensions gap in the LGPS](#) from the Government Actuaries Department (GAD). The Board noted the findings need to be interpreted with caution and will do further work to understand the data, investigate the causes together with considering the possible next steps.

Pensions Dashboard Programme (PDP)

19. The PDP have published [3 new videos](#), these are an 'Introduction to Consumer Protection', 'Myth busting pensions dashboards' and 'Frequently Asked Questions'.
20. GAD have [published a blog](#) on matching members for dashboards.
21. In March the PDP published their [latest news on dashboards](#), which includes FAQ's on connection deadlines and revised timetable.

McCloud

22. The SAB have issued guidance for Administering Authorities setting out options where there is either missing data or, where the authority is not confident of the accuracy of the data provided.
23. DLUHC published their [response](#) to the consultation to the McCloud consultation which closed on 8 October 2020. DLUHC is expected to launch a further consultation this spring seeking views on:
 - Issues where a final decision is yet to be made due to consultation responses, for example aggregation and flexible retirement,
 - Issues not included in the original consultation, for example compensation, interest and excess teacher service, and
 - Updated draft regulations.

After considering the responses to the further consultation, DLUHC will finalise the regulations which will come into force on 1 October 2023, with backdated effect to 1 April 2014.

24. In addition to the recent response by DLUHC, they have worked with the SAB and published a [factsheet](#) summarising the McCloud remedy for LGPS members.

HM Treasury (HMT)

25. HMT published a [written ministerial statement](#) confirming the rates of annual revaluation for all the public sector schemes together with pensions increase applicable for April 2023. For the LGPS this is confirmed as 10.1% for both CARE revaluation and pensions increase.
26. The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023 were laid on 6 February 2023. These regulations are relevant for the implementation of McCloud, however at present do not cover Teachers with excess service who will need to be put into the LGPS as part of the McCloud remedy. The LGA have published a [commentary](#) on the regulations that may be relevant to the LGPS.
27. The Spring Budget 2023 was held on 15 March 2023 and the Finance (No.2) Bill was published on 23rd March 2023 and with effect from 6 April 2023 proposes to enact some of the changes announced at the Spring Budget. In particular affecting the LGPS the changes are:
 - Increasing the Annual Allowance (AA) from £40,000 to £60,000 from the tax year 2023/24.
 - Increasing the Money Purchase AA from £4,000 to £10,000 from the tax year 2023/24.
 - Increasing the Adjusted income level for the Tapered AA from £240,000 to £260,000 from the tax year 2023/24.
 - Increasing the Minimum Tapered AA from £4,000 to £6,000 from the tax year 2023/24.
 - Abolishing Lifetime Allowance (LTA) charges arising in relation to Benefit Crystallisation Events (BCE) occurring on or after 6 April 2023.

- Allowing members to accrue new pension benefits, join new arrangements or transfer, without losing enhanced protection or fixed protection where the protection was applied for before 15 March 2023.
- Except where protections apply, capping the maximum pension commencement lump sum (PCLS) a member can take to be the lower of 25% of the capital value of the pension benefits the member is taking or 25% of their remaining LTA, if they have not used any LTA then the cap will be £268,275 (being 25% of £1,073,100).
- Changing the taxation of the LTA excess lump sum, so that it is taxed as pension income and so at the member's marginal rate rather than 55% which applied under the LTA charge.
- Abolishing the LTA completely from the 2024/25 tax year through a future Finance Bill.

Although the LTA is to be removed fully from April 2024, there is still much that needs resolving as the information is still required to assess how much LTA members have previously used and how much they have taken as a PCLS previously.

28. It was also announced within the [Spring Budget](#) that DLUHC will launch two new consultations on LGPS investment.
- The first consultation will focus on LGPS pooling, with the government challenging the LGPS in England and Wales to 'move further and faster on consolidating assets'. The consultation will include proposals for the LGPS funds to transfer all listed assets into their pools by March 2025 and set direction for the future, which might include moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale. It was highlighted that 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 second consultation will focus on investments and include proposals for LGPS funds to consider opportunities in illiquid assets such as venture and growth capital. This has been a long-term ambition from Government, who in February 2022 suggested LGPS funds set out plans for investing up to 5% of their assets in projects that support local areas.

It is not known however when the government will look to launch these consultations.

29. Within the Finance (No.2) Bill, clause 25 will introduce a new section to the Finance Act 2004 to allow members who contribute to a net pay arrangement, such as the LGPS, whose taxable income is below their personal allowance, to be able to claim tax relief on the pension contributions they have paid into the scheme. This will not come into effect until 6 April 2024 and the government will pay a top-up payment in the following tax year in which the contributions were paid. Those eligible will be notified by HMRC and invited to provide the necessary details to HMRC to enable the top-up payment to be paid direct to their bank account.
30. In a [written ministerial statement](#) on 30 March 2023 it was announced that the Superannuation Contributions Adjusted for Past Experience (SCAPE) rate changed. This is used to determine actuarial factors across the Public Service Pension Schemes and as a result DLUHC confirmed that calculations for certain non-club transfers, certain interfund/intrafund, certain non-club cash transfer sums and all cash equivalent values (CEV) for divorce purposes must immediately be suspended. It was expected that DLUHC would issue new transfer factors in April/May, they were received on 1 June. The remainder of the Scheme's actuarial factors will be amended in due course. DLUHC's intention is to introduce the revised factors over a four-month period starting from April 2023.

HMRC

31. HMRC published [Pension Schemes newsletter 148](#), which summarises all the announcements in the Budget on 15 March 2023 in connection with tax relieved pension savings.
32. HMRC published a [Lifetime Allowance guidance newsletter](#) on 27 March 2023 which provides further information on PCLS's, LTA protections and how to pay and report lump sums that would have previously incurred an LTA charge but are now subject to tax as pension income.

Department for Work and Pensions (DWP)

33. The DWP have issued a [press release](#) confirming they support the private member's bill expanding auto enrolment. The proposal is to remove the Lower Earnings limit for contributions and reduce the age for eligible jobholders from 22 to 18.
34. The DWP published their [2023 review](#) of the State Pension age which must be regularly reviewed in accordance with the Pensions Act 2014. The review confirms the rise of the State Pension Age to age 67 between 2026 and 2028 remains appropriate but they do not intend to raise this further to age 68 over the period from 2037 to 2039, as was recommended in the review that took place in 2017. However, a further review will take place within the next two years of the next Parliament to consider whether the raise to age 68 should occur earlier and that the report should be published no later than 29 March 2029.
35. DWP have [announced delays to Pension Dashboards connection deadlines](#). They have said the delays are necessary to give the Pensions Dashboards Programme (PDP) the time it needs to meet the challenges in developing the digital architecture. DWP will provide an update on dashboards to Parliament before the summer recess. It is not clear if this will mean a delay to connection deadlines for Public Service Pension Schemes.

The Pensions Regulator (TPR)

36. TPR held a webinar, which was [recorded](#), on dashboards which covered data preparation duties and steps schemes need to take to ensure their data is accurate, complete, up-to-date and digitally accessible.
37. TPR have confirmed following the announcement by the DWP of the delay to the Pensions Dashboards, that they will write to those schemes affected to confirm when the new deadlines are set. They have also published updated guidance and checklist to help schemes focus on the work they should be doing now to prepare for their dashboard duties.
38. TPR have published new guidance on [liability driven investments \(LDI\)](#) which sets out further practical steps schemes should take to manage risks.
39. TPR have authorised the UK's first Collective Defined Contribution (CDC) scheme, being the Royal Mail Collective Pension Plan.

Other news and updates

40. National LGPS Frameworks is looking to provide two new frameworks, one for Integrated Service Providers (ISP), which is necessary for Pension Dashboards and Member Data Services and the other for Additional Voluntary Contributions (AVCs), which will also cover salary sacrifice AVCs.

CONSULTATION:

41. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

42. None.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

43. None.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

44. The Director, Financial and Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

45. None.

EQUALITIES AND DIVERSITY

46. There are no equality or diversity issues.

OTHER IMPLICATIONS

47. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

48. No next steps are planned

Contact Officers:

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Consulted: Pension Fund Committee Chair

Annexes:

None

Sources/background papers:

None
