

## SURREY COUNTY COUNCIL

## SURREY PENSION FUND COMMITTEE



DATE: 15 DECEMBER 2023

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

SUBJECT: LGPS UPDATE (BACKGROUND PAPER)

**SUMMARY OF ISSUE:**

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

**RECOMMENDATIONS:**

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

**REASON FOR RECOMMENDATIONS:**

The report provides background information for the Committee.

**DETAILS:****Highlights**

1 <b>McCloud regulations laid</b>	The LGPS regulations to implement the McCloud remedy have now been laid and effective from 1 October 2023. More information on McCloud in paragraphs 11 to 17, 33, 34 and 36.
2 <b>Investments and Climate Related Financial Disclosures highlighted</b>	Scheme Advisory Board (SAB) responds to Department for Levelling Up, Housing and Communities (DLUHC) consultation on next steps for LGPS investing. In addition, the Local Government Association (LGA) publish a technical brief and submit written evidence to a Bill which will extend to LGPS investment decisions. More information can be found in paragraphs 9, 10, 18 and 19.
3 <b>All factors received following Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate change</b>	Following change to the SCAPE discount rate, all batches of actuarial factors have been received. More information can be found in paragraphs 4, 15 and 16.

**LGPS updates**

- Following the change on 30 March 2023 to the SCAPE rate, the final batch of factors were issued on 2 October and are for Club transfers in and out, purchase of additional pension, conversion of Additional Voluntary Contributions (AVCs) transfer credits, conversion of AVCs to provide additional pension and purchase of additional survivor

benefits. For members who are purchasing additional pension or additional survivor benefits under a contract which began before the revised factors came into effect (2 October), and the contract is due to expire after March 2024, will need to be contacted to advise of the change in factors and recalculated contributions will be collected from 1 April 2024 onwards, in line with the new factors.

5. The DLUHC have published the [LGPS statistics for England and Wales: 2022 to 2023](#).
6. The LGA have published free and interactive [bite-size training on ill health retirement](#) for employers.
7. The LGA have published [employer](#) and [member](#) frequently asked questions (FAQs) about strike action for LGPS members.
8. Booking is now open for the [LGPS Governance Conference 2024](#). The conference will take place on 18 and 19 January 2024 in York and can be attended in person or online. The conference is aimed at Councillors and others who attend pension committee/panels and local pension boards.
9. On 22 November DLUHC published its [response](#) to the consultation LGPS:Next steps on investments, confirming they will proceed with the proposed reforms relating to investments of the LGPS.
10. On the same day the Chancellor announced in the [Autumn Statement](#):
  - Establishing a deadline for the accelerated consolidation of LGPS assets into pools.
  - Progression of reforms set out at Mansion House, to improve pension savers' returns and boost growth in the UK.
  - The Lifetime Allowance (LTA) will be removed from 6 April 2024 through legislation in the Autumn Finance Bill.
  - The triple lock will remain in place for State Pensions.

## McCloud

11. The DLUHC announced the outcome of the consultation on supplementary McCloud issues and draft regulations on 8 September. On the same day [The Local Government Pension Scheme \(Amendment\) \(No. 3\) Regulations 2023](#) were laid and took effect from 1 October. These regulations implement the McCloud remedy and amend the statutory LGPS underpin rules, ensuring younger members are also afforded protection, by removing the age discrimination and ensuring the underpin now works effectively and in line with the government's policy intent, following the McCloud judgement and the government's acceptance, that the discrimination found by the Court of Appeal, applied to all public service pension schemes.
12. To qualify for underpin protection members must meet the following criteria:
  - Been a member of the LGPS or another public service pension scheme (PSPS) on or before 31 March 2012 (the former PSPS benefits do not have to have been transferred to the LGPS) and,
  - Provided they do not have a subsequent continuous gap in membership of a PSPS of more than 5 years and,

- Contributed to the LGPS at some point during the remedy period (1 April 2014 and 31 March 2022), or transferred in PSPS membership where the member contributed to the scheme during the remedy period and,
- Were under age 65 during some, or all, of the remedy period.

13. The DLUHC have, or are:

- Published a new version of the [McCloud member factsheet](#), which reflects the final regulations.
- Issued a [McCloud initial prioritisation policy](#), with a final version being issued early next year.
- In the process of setting up an implementation group to decide what other statutory guidance is required.

14. The LGA have, or are:

- Published the first instalment of a [McCloud technical guide](#) for administrators.
- Published a member factsheet.
- Will be hosting McCloud online surgeries, as well as in person breakout session at the Pension Managers' Conference in Torquay.
- Created a new area in the [member website dedicated to McCloud](#), which includes an interactive 'Am I affected?' tool, examples and frequently asked questions.
- In conjunction with the Communications Working Group, produced initial template paragraphs for member correspondence, together with an article to inform members about the changes which must be issued to all members who may be affected by 31 December 2023.

15. The Government Actuary's Department (GAD) are updating actuarial guidance to reflect the changes, which will be published by DLUHC as soon as it is available. As a result, for those who qualify for the underpin protection, the calculation of a transfer out will be different from 1 October 2023 and as the GAD guidance has not yet been issued, those transfers must be put on hold. The DLUHC have confirmed that payments to other LGPS Funds may continue for affected members and the payment will not need to be revisited once the updated guidance has been issued, but the expectation is data sent should include the relevant information necessary to perform underpin calculations.

16. The Club Memorandum, used for calculating transfers between public service pension schemes, has also been updated to reflect the changes following the McCloud remedy, as well as the SCAPE rate review.

17. Further regulations will be needed to implement the remedy, primarily for excess teacher service and it is expected DLUHC will publish a consultation on these changes in 2024.

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

18. The SAB published a statement setting out [some key principles](#) that will form the basis of its response to the DLUHC consultation on [LGPS: Next steps on investments](#), which closed on 2 October. The SAB also submitted their [full response](#) to the consultation on 2 October.

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19. The LGA submitted [written evidence](#) on [The Economic Activity of Public Bodies \(Overseas Matters\) Bill](#) (also known as the Boycotts, Divestments and Sanctions Bill) to the Public Bill Committee. The Scottish Scheme Advisory Board also sent [a letter](#) to the Committee about the Bill expressing concerns.
  20. The SAB have published its [2022 Scheme valuation report](#), which is compiled from data from local fund valuation reports. This shows an improvement in the average funding levels since 2019.
  21. The SAB have set up a small working group to look at the issues presented by the improving funding position across the Scheme. For example:
    - What impact could/should being in surplus have on employer contributions.
    - When is it appropriate to set a negative secondary contribution.
    - What impact could/should being in surplus have on investment and funding strategies.
    - How best to communicate being in a surplus position to employers and member representatives.
  22. The Board is considering its own cost control mechanism and the assumptions on which the process is based. This follows changes made to HM Treasury's mechanism after a review by the Government Actuary and public consultation.
  23. The SAB have published [guidance on academy conversions](#).
  24. The SAB gave an update via [LGPS-Live website](#) on 6 December 2023 as well as discussing along with a panel, investment strategies for different employers and the key investment questions of the day for LGPS investors. Other recent topics include governance issues and best practice in keeping pension board and committee's knowledge and skills up to date, McCloud, audit issues and the gender pensions gap. The LGPS-Live website has recordings of previous webinars, together with registering for future webinars.

### **Pensions Dashboard Programme (PDP)**

25. The PDP continue to update and launch new [resources](#) along with a [newsletter](#) in August.
26. The PDP published an article on 13 September 2023, reiterating [why dashboards are needed](#).
27. The PDP have published a [blog](#) addressing some common dashboard questions.
28. The National LGPS Technical Group have formed a sub-group to look at AVCs and dashboards to establish common approaches on matching and providing value data.
29. The PDP host an informal virtual connection forum via MS Teams every eight to ten weeks, which can be signed up to by emailing [eventsdpd@maps.org.uk](mailto:eventsdpd@maps.org.uk). Updates are provided to attendees together with discussion on relevant topics.
30. TPR have published a [blog](#) encouraging schemes to be prepared for pensions dashboards and to follow their checklist.

### His Majesty's Treasury (HM Treasury)

31. HM Treasury published [The Public Service Pensions \(Valuations and Employer Cost Cap\) Directions 2023](#). The directions replace those previously published in 2014 and apply to the 2020 and later valuations.

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

32. HMRC released draft legislation and a policy paper [on abolishing the pensions lifetime allowance](#) from 6 April 2024, responses were asked for by 12 September and the LGA sent a [response](#). Within their response they have said they do not believe this will simplify the tax regime for the local authority workforce and other LGPS employers and is likely to cause confusion. Following the Autumn Statement, it has been confirmed the removal of the LTA will now proceed.
33. The Government laid [The Public Service Pension Schemes \(Rectification of Unlawful Discrimination\) \(Tax\) \(No.2\) Regulations 2023](#), which came into force on 14 September 2023. These regulations address issues not dealt with in the first set of regulations ([The Public Service Pension Schemes \(Rectification of Unlawful Discrimination\) \(Tax\) Regulations 2023](#)), in relation to the McCloud remedy for the Public Service Pension Schemes.
34. HMRC has published a further [public service pensions remedy newsletter](#) in October 2023. Included within the newsletter is the introduction of a [calculator](#) for members who may need to correct their tax position due to the McCloud remedy in respect of annual allowance or lifetime allowance, an [interactive guide](#) for members to check if they are affected by McCloud, as well as guidance for [members](#) and [administrators](#) covering the pension tax rules.

### Department for Work and Pensions (DWP)

35. The DWP published [results of the independent review of TPR](#), which found it is broadly well run and well regarded.

### The Pensions Regulator (TPR)

36. TPR published guidance on annual benefit statements (ABS) for 2023 to 2025 in relation to the McCloud remedy for public service pension schemes. The guidance is primarily aimed at the other public service pension schemes where those affected by the McCloud remedy, will have to be rolled back into their 'legacy' scheme for the remedial period and will be offered a 'deferred choice underpin (DCU)' at retirement, this does not apply to the LGPS, where affected members will automatically have the underpin applied to their benefits. The guidance sets out TPR's expectations, but acknowledge this will be challenging and so will take a risk based approach when assessing and ABS breaches during 2023 to 2025.
37. TPR published a blog titled '[Why we are building relationships with pension administrators](#)' emphasising the importance of fostering closer relationships with administrators, allowing TPR to gain a better understanding of the challenges they face and address risks more effectively.
38. TPR launched a new industry facing campaign on LinkedIn encouraging trustees and administrators to not let scams go unreported.

## The Pensions Ombudsman (TPO)

39. The TPO published a [member factsheet](#) outlining what members should do if they have a complaint about receiving incorrect information.

### Other news and updates

40. The Pensions Administration Standards Association (PASA) published new [data guidance on benefit accuracy](#) for defined benefit (DB) schemes building on from their previous guidance on [data quality](#).
41. The Money and Pensions Service (MaPS) published its [review of the evidence on the scale of pension scams in the UK](#).
42. The Pensions (Extension of Automatic Enrolment) Act 2023 has received Royal Assent and gives the UK Government the power to make regulations that will lower the minimum age for automatic enrolment from age 22 to 18 and remove the lower earnings limit for contributions. The UK Government will shortly launch a consultation on implementing the changes.
43. The Office for National Statistics announced on 18 October 2023 the Consumer Prices Index (CPI) rate of inflation for September 2023 was 6.7%. It is yet to be confirmed by the Government that this increase will apply in April 2024 to the revaluation and pensions increase that apply to LGPS active pension accounts, deferred pensions and pensions in payment.

#### **CONSULTATION:**

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

#### **RISK MANAGEMENT AND IMPLICATIONS:**

45. None.

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

46. None.

#### **DIRECTOR OF FINANCE, CORPORATE AND COMMERCIAL COMMENTARY**

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

#### **LEGAL IMPLICATIONS – MONITORING OFFICER**

48. None.

#### **EQUALITIES AND DIVERSITY**

49. There are no equality or diversity issues.

#### **OTHER IMPLICATIONS**

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

**WHAT HAPPENS NEXT**

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51. No next steps are planned.

**Contact Officers:**

Sandy Armstrong      Technical Manager  
Paul Titcomb          Head of Accounting and Governance

**Consulted:** Pension Fund Committee Chair

**Annexes:** None

**Sources/background papers:** None

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