

## SURREY COUNTY COUNCIL

## SURREY LOCAL PENSION BOARD



DATE: 17 MAY 2024

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 Board is asked to note the content of this report.

**REASON FOR RECOMMENDATIONS:**

The report provides background information for the Board.

**DETAILS:****Highlights**

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| 1 <b>McCloud guidance</b>  | The Government Actuary Department (GAD) issues guidance for calculations for members affected by the McCloud remedy. More information on McCloud in paragraphs 9 to 14.                |
| 2 <b>Lifetime Allowance (LTA) abolished, new limits introduced</b> | The Finance Act 2024 legislates the removal of the Lifetime Allowance (LTA) from 6 April 2024, introducing new limits. More information can be found in paragraphs 7, 30 to 33 and 35. |
| 3 <b>Pensions Increase and CARE revaluation confirmed for 2024</b> | The increase for LGPS pensions and LGPS Career Average Revalued Earnings (CARE) accounts effective from April 2024 announced. More information can be found in paragraphs 8 and 29.    |
| 4 <b>Spring Budget implications for the LGPS</b>                   | Government to work with LGPS in possible role of unlocking investments. More can be found on this and LGPS investments in paragraphs 19, 33 and 44.                                    |

**LGPS updates**

- The Local Government Association (LGA) are planning to update the technical guide on digital engagement with the latest information about usage of member portals, with the purpose of the updates being:

- a) To identify any changes in sign up rates since the guide was first published,
  - b) Allow administering authorities to benchmark their sign-up rates with the average rates across the Scheme,
  - c) Share information about any significant developments or problems that funds have encountered in operating a member portal in the last year.
6. The LGPS Governance conference took place on 18 and 19 January in York and the LGA would like to thank all speakers and attendees who joined in person or online. The 2025 Governance conference will take place in Bournemouth on 30 and 31 January 2025. Those wishing to attend the next conference, either in person or online, can [register their interest](#).
7. The LGA, in conjunction with Aon, have produced an administrators guide following the abolition of the Lifetime Allowance, together with issuing a draft 'previous pension benefits declaration form'. These represent the LGA's understanding of the Finance Act 2024, draft pension tax manual, along with His Majesty's Revenue and Customs (HMRC) newsletters and frequently asked questions.
8. The LGA published [bulletin 248](#) – annual update which sets out the rates and bands that apply from April 2024 for various purposes, including pension contributions.

## **McCloud**

9. The Department for Levelling Up, Housing and Communities (DLUHC) issued new [Government Actuary Guidance](#) on 25 January 2024 which provides additional information about how the McCloud remedy affects certain calculations. The revised guidance covers early payment of pensions, late retirement, individual incoming and outgoing transfers and interfund transfers. Prior to this, for members affected by McCloud certain transfers were put on hold and the issuing of the updated guidance now allows transfer values to be calculated for affected members. Pension Software providers, however, will take time to update the systems to make the necessary changes but in the interim the LGA have provided a spreadsheet which can be used for certain calculations.
10. Clarity is still being sought from DLUHC whether the McCloud remedy applies to transfer out calculations for deferred refund members (members who did not meet the vesting period to qualify for a benefit). Until such clarification has been confirmed, the LGA recommend Club transfers for deferred refunds remain on hold, together with non-Club transfers where the transfer sum would increase due to remedy protection.
11. The DLUHC will be issuing new actuarial guidance on divorce debits and pension credits which will be needed to process a pension sharing order for a member protected by the McCloud remedy.
12. The Teachers' Pension Scheme (TPS) has produced a [video for employers](#) about excess service in the TPS, explaining what this means for affected members, together with an explanation of what employers need to do if they are contacted by TPS for affected members.
13. [The Public Service Pensions \(Exercise of Powers, Compensation and Information\) \(Amendment\) Directions 2024](#) came into force on 21 March 2024, amending the 2022 Directions. For the LGPS they delete the requirement setting out the interest rate to apply on an amount owed by a member to the scheme and the direction for netting this off as it was deemed unnecessary for the LGPS.

14. A closed consultation on draft McCloud statutory guidance was issued by DLUHC. The draft guidance covers issues relating to data collection and verification, identifying members in scope, prioritisation and compensation.

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

15. Following receipt of the commissioned report on Sharia Law and the LGPS from an Islamic finance expert, The SAB have [summarised the findings](#) but make clear that report reflects the views of the author and not the Board. The SAB asked Counsel to further update their initial legal advice to address the outstanding questions from the initial advice before the receipt of the report. A summary of Counsel's advice can be found in the [Legal Opinions and Summaries page](#) of the SAB website, although the key message is that the legal risk of a case being successfully brought against a Scheme employer in an Employment Tribunal on the basis of indirect discrimination, or judicial review against an administering authority, or DLUHC for breach of the public sector equality duty, remains extremely low.
16. The SAB held a webinar on 6 March 2024 focusing on the new General Code of Practice which came into force on 27 March 2024, and there is a [recording of the webinar](#).
17. The SAB have reviewed and identified changes required to the 2019 The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance to bring this up to date and issued the [Annual Report Guidance](#). The guidance should be used for producing the 2023/24 Annual Reports but it is acknowledged Funds may not be able to report on the new requirements in time for the annual reports that must be published by 1 December 2024 therefore best endeavours should apply.
18. The next guidance the SAB Compliance and Reporting Committee (CRC) will work on will be the Funding Strategy Statement (FSS) guidance which was last updated in 2016.
19. On 20 February 2024 the LGA published a [further briefing](#) on the Economic Activity of Public Bodies (Overseas) Matters Bill which includes matters raised in previous briefings and some suggested amendments the LGA would support. The Bill is at [Committee stage](#) and seeks to ban administering authorities from making investment decisions influenced by political or moral disapproval of foreign state conduct, except where this is required by formal Government legal sanctions, embargoes and restrictions.
20. The Gender Pensions Gap working group are continuing to explore practical actions to address the underlying issues contributing to the pensions gap identified by the Government Actuary's Department (GAD) following the commissioning of the report by the SAB. The SAB and LGA will be hosting a virtual event on 9 May 2024 for employers with the aim of improving awareness, discussing best practice and encouragement to review the information available to staff at key points in their life. The LGA and SAB also wrote a [blog](#) in March 2024 on the subject.
21. The SAB together with the Institute for Chartered Accountants in England and Wales have commissioned an information note, to assist employers, administering authorities and auditors, which will set out the timeline and information flow for triennial valuation and the international accounting standard (IAS19), with the hope of this being available before this Summer.

22. The SAB [responded](#) to the DLUHC's [consultation on addressing the local audit backlog in England](#). This proposes to introduce a backstop date in order to allow those who prepare and audit local body accounts to focus on more current financial periods, replacing the duty for local bodies to publish a delay notice where the audit had not been concluded.

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

23. The PDP have published [Frequently asked questions newsletters](#) on varying topics about the pensions dashboards.
24. The PDP hosted a webinar on 17 January 2024 on connection guidance and understanding Additional Voluntary Contributions (AVC) and value data. A recording of this, along with the slides, questions and answers can be found [here](#).
25. The PDP have published a [blog](#) on the central digital architecture, setting out what this is and how it works, together with a [blog](#) on addressing some common questions.
26. The Financial Reporting Council (FRC) published a revised version of the [Actuarial Standard Technical Memorandum](#) (AS TM1) following a consultation in November 2023. Whilst the AS TM1 specifies the assumptions and methods to be used in statutory money purchase illustrations (SMPIs), these are used by LGPS AVC providers to project the AVC estimated retirement income and is data that will be shown on the Pensions Dashboard.
27. The Department for Work and Pensions (DWP) released guidance on the staged timetable accompanied by a written ministerial statement on 25 March 2024. This sets out the revised staging timetable for scheme connections to the dashboard ecosystem. The last connection date is 31 October 2026, public service pension schemes must connect by 31 October 2025 (originally in regulations this was 30 September 2025).
28. Following the above, the DWP published an update to the [guidance on deferred connection](#) to the Pensions Dashboards which sets out the issues that should be considered if an application for a deferral to the connection deadline is made.

### **His Majesty's Treasury (HMT)**

29. HMT published a [written ministerial statement](#) on 25 January 2024 and The Pensions Increase (Review) (No 2) Order 2024 laid on the 15 March 2024 which confirms:
- a) Public service pensions will increase by 6.7% on 8 April 2024, in line with the Consumer Price Index (CPI) for the year up to September 2023.
  - b) Revaluation of CARE accounts in April 2024 for public service pension schemes that revalue those accounts in line with CPI (eg LGPS), will also be 6.7%, together with any local addition relevant to the scheme.
30. On 22 February 2024 the Finance Bill 2023/24 received Royal Assent to become the [Finance Act 2024](#). This fully removes the Lifetime Allowance (LTA) from 6 April 2024 and introduces new lump sum limits to restrict the amount of tax-free cash an individual can take over their lifetime. These new limits are:
- a) the Lump Sum Allowance (LSA), with a limit of £268,275 and includes lump sum payments such as a pension commencement lump sum (PCLS) and uncrystallised funds pension lump sum (UFPLS),

- b) the Lump Sum and Death Benefit Allowance (LSDBA), with a limit of £1,073,100 and includes PCLS, UFPLS, serious ill health lump sums (SIHLS) and authorised lump sum death benefits,
  - c) the Overseas Transfer Allowance (OTA), with a limit of £1,073,100 and includes transfers to Qualifying Recognised Overseas Pension Schemes (QROPS).
31. In addition, Benefit Crystallisation Events (BCE) are also removed and replaced on 6 April 2024 by Relevant Benefit Crystallisation Events (RBCE). Where a RBCE takes place on or after 6 April 2024 differing checks must now be undertaken to ensure the payment of either a lump sum, death benefit lump sum or QROPS transfer, remains within the member's available allowance limit. Members with LTA protections will be afforded the lump sum limit in accordance with the relevant protection. To enable the checks, further information is required from members detailing past pension events that took place prior to 6 April 2024 and relevant tax-free lump sum payments received on or after 6 April 2024. For pension events occurring before 6 April 2024 a standard transitional calculation is performed on the basis the member took 25% of their used LTA as a tax-free lump sum. Members can apply for a Transitional Tax-Free Amount Certificate (TTFAC) before their first RBCE occurs and the certificate, if issued, provides the actual amount of relevant tax-free lump sum amounts the member received.
32. [The Pensions \(Abolition of Lifetime Allowance Charge etc\) Regulations 2024](#) came into force on 6 April 2024 and amends relevant legislation to ensure the operation of the new pensions tax framework following the abolition of the LTA and includes transitional issues not addressed in the Finance Act 2024, along with issues identified through consultation after it was published.
33. The [Spring Budget](#) on 6 March 2024 confirmed for the LGPS:
- a) The Government will work with the LGPS to consider the role they could play in unlocking investment in new children's homes,
  - b) The LGPS in England and Wales will be required to publicly disclose the breakdown of their asset allocations, including UK equities, as early as April 2024.
34. On 6 July 2023 HMT issued a written ministerial statement acknowledging an error in the earnings percentage used in HMT revaluation orders for 2020/21 and 2021/22 which are used to revalue CARE benefits in the Firefighters and Armed Forces CARE schemes. This may impact any inner-Club transfers received by the LGPS from those schemes where the relevant date was after 31 March 2021 and the member accrued CARE benefits during the affected years with the former scheme as the rate of revaluation applied to the transferred CARE should be the same rate as the sending scheme. The LGA are awaiting further clarity on the issue.

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

35. HMRC have [published Lifetime Allowance guidance newsletters](#), along with further updates within their monthly newsletters which includes answers to frequently asked questions and identifying where further legislative changes will, or may, need to be added following the abolition of the Lifetime Allowance.

### **The Department for Work and Pensions (DWP)**

36. The DWP laid The Pensions Act 2004 (General Code of Practice) (Appointed Day, Amendment and Revocations) Order 2024 on 26 March 2024, confirming the effective date for the new General Code of Practice was 28 March 2024. This replaces Code of Practice 14 for public service pension schemes as well as combining ten previous codes.

37. The DWP also laid [The Pensions Act 2004 \(Codes of Practice\) \(Revocation\) Order 2024](#) which came into force on 28 March 2024, revoking the previous 10 codes and the Code of Practice 14.

### **The Pensions Regulator (TPR)**

38. The Regulator published a [blog](#) on environmental, social and governance (ESG) risks and opportunities on 21 February 2024.
39. The Regulator also published a [blog](#) on 4 March 2024 on automatic enrolment.
40. The Chief Executive of TPR [delivered a speech](#) on the evolving pensions industry landscape and TPR's growing role.
41. On 19 March 2024 TPR published the results of their first [diversity and inclusion survey](#), which was conducted between July and August 2023 with responses from trustees and public service pension scheme board members. The survey confirms trustees and pension board members are less diverse than the overall population with the results establishing a baseline to measure progress towards ensuring high standards of diversity and inclusion on pension boards.

### **Other news and updates**

42. The Carer's Leave Regulations 2024 have been introduced and effective from 6 April 2024. These regulations provide entitlement for employees in a 12 month period to take [one week's unpaid leave](#) to give or arrange care for a dependent (based on the dependent meeting the criteria).
43. GAD published an article on 14 February 2024 on [developing artificial intelligence \(AI\) skills](#) and is working with an AI partner to develop coding to perform quality assurance checks on administrator calculations.
44. The Taskforce on Social Factors have published guidance '[Considering Social Factors in Pension Scheme Investments](#)', and is aimed at supporting schemes in assessing the social risks and opportunities of their scheme's investments.

#### **CONSULTATION:**

45. The Chair of the Local Pension Board has been consulted on this report.

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

46. None.

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

47. None.

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

48. 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**

49. None.

**EQUALITIES AND DIVERSITY**

50. There are no equality or diversity issues.

**OTHER IMPLICATIONS**

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

**WHAT HAPPENS NEXT**

52. No next steps are planned

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**Contact Officers:**

Sandy Armstrong      Technical Manager  
Paul Titcomb          Head of Accounting and Governance

**Consulted:** Local Pension Board Chair

**Annexes:** None

**Sources/background papers:** None

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