

SURREY COUNTY COUNCIL



SURREY PENSION FUND COMMITTEE

DATE: 21 JUNE 2024

LEAD OFFICER: ANNA D'ALESSANDRO, INTERIM EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

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 contents of this report.

REASON FOR RECOMMENDATIONS:

The report provides background information for the Committee.

DETAILS:**Highlights**

1 Letter from Simon Hoare MP	On 15 May 2024, Simon Hoare MP (Minister for Local Government) wrote to the CEOs and Section 151 officers of LGPS Funds regarding efficiencies in the LGPS. More information can be found in paragraphs 5 to 7.
2 Abolition of Lifetime Allowance (LTA)	The Local Government Association (LGA) publish guidance to assist funds. More information on the abolition of LTA in paragraphs 2 and 29 to 33.
3 Annual Report Guidance issued	The Scheme Advisory Board (SAB) have updated The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance, last issued in 2019. More information can be found in paragraph 15.
4 2020 Cost Control Valuation published	Following publication, the Government is not proposing changes to scheme benefits. More information can be found in paragraph 20.

LGPS updates

1. 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](#).

2. The LGA, in conjunction with Aon, have produced an administrators guide following the abolition of the Lifetime Allowance, together with a 'previous pension benefits declaration form'. These represent the LGA's understanding of the Finance Act 2024, the Pension Tax Manual (PTM), along with HMRC's newsletters and frequently asked questions. The guide has had a few updates since and confirms His Majesty's Revenue and Customs (HMRC) have advised the new method of valuing crystallised rights when assessing if a trivial commutation lump sum can be paid is under review.
3. The Education and Skills Funding Agency has released new [LGPS guidance for Academies](#). Key areas of the guidance are an LGPS overview, regular valuations, LGPS academy guarantee from the Department for Education, pooling, academy conversions and transfers and engaging with the LGPS.
4. The LGA have setup a new webpage to advertise current [LGPS vacancies](#), which they plan to update every Monday. The LGPS investment pool Border to Coast has produced a short video that can be found on the webpage to help encourage interest in working in the LGPS, talking about the work of the funds and the importance of the LGPS for its members.

Letter from the Minister for Local Government

5. On 15 May 2024, Simon Hoare MP (Minister for Local Government) wrote to the CEOs and Section 151 officers of LGPS Funds regarding efficiencies in the LGPS (see Annex 1).
6. The ask from the minister is to gather information from Funds on the progress of asset pooling in the LGPS and the views of Funds on the opportunities for further efficiencies in the scheme.
7. Senior pension fund officers are working in concert with our 10 local authority partners of our jointly owned asset pool, Border to Coast, to address this.

McCloud

8. 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.
9. [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.
10. 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.
11. His Majesty's Revenue and Customs (HMRC) published [pension schemes newsletter 158](#) which covered the consequences of abolishing the Lifetime Allowance (LTA) on the McCloud remedy.

12. HMRC confirmed in [newsletter 159](#) an update to previous guidance issued regarding the tax treatment of interest payments on arrears as a result of a McCloud recalculation. The update confirms if the interest is paid on an authorised payment the whole interest payment will be an authorised payment.

Scheme Advisory Board (SAB)

13. Following receipt of the commissioned report on Sharia Law and the LGPS from an Islamic finance expert, 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.
14. 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](#).
15. 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. The SAB have published a [short document](#) giving a high-level overview of the key areas in the new guidance where there have been significant changes or new reporting added and the LGPS Live also addressed the new guidance on 10 April 2024. A recording of the session is available on the [LGPS Live website](#).
16. 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.
17. On 20 February 2024 the LGA published a [further briefing](#) on the [Economic Activity of Public Bodies \(Overseas\) Matters Bill](#), together with a [technical briefing](#) published on 12 April 2024. These include matters raised in previous briefings, some suggested amendments the LGA would support and concerns about the Bill. The Bill is at [Committee stage](#) and discussed for a second time in the House of Lords on 17 April 2024. A recording of the session is available on [parliamentlive.tv](#), with the discussion starting from 16:28:35. The Bill 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. To date none of the amendments proposed by peers, or the LGA, have been incorporated into the Bill.
18. 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.

19. The SAB [responded](#) to the Department for Levelling Up, Housing and Communities (DLUHC) [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.
20. On 11 April 2024, the Government Actuary's Department published the [2020 cost control valuation](#) for the LGPS (England and Wales), which found the core 'cost cap' fell outside the 3% corridor, being 3.2% below the target cost. The new 'economic cost cap cost' also fell outside the 3% corridor, being 7.3% above the target cost. Overall, this means the mechanism as a whole is not breached therefore the Government is not proposing to make any changes to scheme benefits. The SAB are required to undertake a scheme cost assessment and the final report will be published shortly. Having already seen the initial results the SAB have agreed they are not minded in recommending to the Secretary of State any changes to scheme benefits through that process. More information can be found on the [SAB website](#).

Pensions Dashboard Programme (PDP)

21. 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.
22. The PDP published its ninth [progress update report](#) on 26 April 2024, which looks back at the achievements since October 2023, together with looking ahead on focus areas for the next six months.
23. Recordings of previous webinars hosted by the PDP, along with the slides and Questions and Answers can be found [here](#).
24. 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.
25. 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).
26. 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.
27. The Pensions Regulator (TPR) have published a ['Check your connect by date' tool](#) to enable administrators work out their connection date to the dashboard's ecosystem. For the LGPS the connection date is 31 October 2025.
28. On 27 March 2024 the Financial Conduct Authority (FCA) launched a consultation, which closed on 8 May 2024, on [new guidance for firms intending to offer dashboards to customers](#).

His Majesty's Treasury (HM Treasury)

29. 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).
30. 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. In order to undertake 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.
31. 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.
32. HMRC have published a [consolidated version of all the frequently asked questions](#) on the abolition of the LTA.
33. HMRC have updated the [Pensions Tax Manual](#) (PTM) with the changes brought about by the abolition of the LTA. Any changes subject to further regulations will be highlighted in the PTM by pointing users towards the relevant LTA newsletters.
34. 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.

35. 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.

The Pensions Regulator (TPR)

36. The Regulator published a [blog](#) on environmental, social and governance (ESG) risks and opportunities on 21 February 2024.
37. The Regulator also published a [blog](#) on 4 March 2024 on automatic enrolment.
38. On 26 March 2024 the Regulator published a blog on [equality, diversity and inclusion](#) and discusses transparency on TPR's pay gaps.
39. The Chief Executive of TPR [delivered a speech](#) on the evolving pensions industry landscape and TPR's growing role.
40. 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

41. 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).
42. 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.
43. The Taskforce on Social Factors has 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.
44. The Court of Appeal published its verdict on 17 April 2024 on the case of [The British Medical Association, R \(on the Application Of\) v His Majesty's Treasury & Anor 2024](#). Previously the High Court ruled that His Majesty's Treasury's (HMT) decision to include the McCloud remedy in the cost cap mechanism was not unlawful, following this the unions took their appeal to the Court of Appeal, which has also dismissed their appeal.
45. The Government Actuary's Department (GAD) have published the [2020 cost control valuation results](#) which covers 20 public service pension schemes across all regions of the United Kingdom.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

47. None.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

48. None.

INTERIM EXECUTIVE DIRECTOR FINANCE AND CORPORATE SERVICES COMMENTARY

49. The Interim Executive Director, Finance and Corporate Services is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

50. None.

EQUALITIES AND DIVERSITY

51. There are no equality or diversity issues.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

53. No next steps are planned.

Contact Officers:

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Consulted: Pension Fund Committee Chair

Annexes:

1. Letter from the Minister for Local Government (15 May 2024)

Sources/background papers: None

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