

JOHN RAISIN FINANCIAL SERVICES LIMITED

The Nottinghamshire Local Pension Board

LGPS Update

A paper by the Advisor to the Pension Board **March 2023**

Introduction

This paper informs and updates the Pension Board in respect of a number of important issues relating to the LGPS at a national level. The issues covered in this paper are:

1. Developments relating to the DLUHC
2. Climate Reporting.
3. Investment Pooling.
4. Pension Fund Accounts.
5. Consultation on changes to the Scheme Advisory Board (SAB) Cost Management process.
6. Reclassification of the Further Education sector.
7. LGPS Pensions Increase 2023.

It is hoped that this paper will be informative to all Members of the Pension Board and in particular to those who have joined the Board more recently.

1. Developments relating to the DLUHC

As reported in the previous (September 2022) LGPS Update Paul Scully MP who had been appointed the Minister whose responsibilities included the LGPS in July 2022 was retained in that role by Rt Hon Elizabeth Truss MP following her appointment as Prime Minister in September 2022. However following the resignation of Rt Hon Elizabeth Truss MP and her replacement as Prime Minister by Rt Hon Rishi Sunak MP, in October 2022, Paul Scully MP was removed from his role as a Minister in the DLUHC. Subsequently it was announced, in early November 2022, that Lee Rowley MP had been appointed as the Minister whose responsibilities were to include the LGPS.

2. Climate Reporting

The Consultation on Governance and reporting of Climate Change risk which was issued on 1 September 2022 closed on 24 November 2022. It is understood that the DLUHC received approximately 120 responses to the Consultation.

The volume of responses means that there has been a delay in the DLUHC responding to the Consultation and issuing the final Regulations and any associated Guidance. It is still expected however that, as proposed in the Consultation, LGPS Funds will be required to produce their first Climate Risk Report under the new Regulations by December 2024. It is anticipated that the relevant new Regulations will apply from 1 April 2023 but that they will likely be issued after 1 April and applied retrospectively.

The nature of the (likely) required reporting by individual LGPS Funds, including Nottinghamshire, to comply with the Climate Risk reporting requirements (when published) is likely to require significant additional work. Each LGPS Fund will need to determine the extent to which it will rely on its Officers, Investment Pool, and other Advisors to undertake this work.

3. Investment Pooling

The Consultation on the future development of Investment (Asset) Pooling expected since 2019 has still not yet been issued. The Chancellor of the Exchequer Rt Hon Jeremy Hunt MP did however include reference to this in a Statement on “Financial Services” he made on 9 December 2022 which included that the Government *“Will, in early 2023, consult on new guidance to the Local Government Pension Scheme (LGPS) in England and Wales on asset pooling.”*

It is understood that the future of Investment Pooling has been subject to active consideration within the DLUHC and therefore a Consultation may reasonably be expected to be issued during 2023, although the actual timing is not clear.

4. Pension Fund Accounts

Regulation 53(1) of the LGPS Regulations 2013 (as Amended) requires Administering Authorities (including Nottinghamshire County Council) to *“maintain a pension fund...”* However at present in England the Pension Fund Account forms part of the overall Accounts of the Administering Authority. Due to delays in the preparation and publication of Administering Authority main accounts delays are consequently occurring in the publication of the Pension Fund Annual Report that each LGPS Administering Authority has a statutory responsibility to publish by 1 December each year.

Therefore in August 2023 the Chair of the Scheme Advisory Board (SAB) wrote to the (then) Minister Responsible for the LGPS Paul Scully MP. The SAB letter urged the Government to support the separation of the Pension Fund Annual Accounts in England from those of their Administering Authority as has already happened in both Wales and Scotland. The SAB letter included the following:

“The issues behind delays in the external audit of local authority accounts are much wider and not related to the preparation of pension fund annual accounts. The Board is firmly of the view that, so long as pension fund accounts remain part of the main local authority accounts, problems unrelated to pension fund accounts will continue to impact on the timely publication of the pension fund accounts and the pension fund annual report...”

“When it last met on June 6th , the Board agreed to recommend the separation of the pension fund annual accounts in England from the administering authorities’ own accounts, as is already the case for the LGPS in Scotland and Wales... Indeed, it is notable that in Scotland and Wales 80% of pension funds managed to publish audited pension fund accounts on or before 1st December 2021, whilst in England only 17% of audited pension fund annual reports were published by the same date”

“...It would also assist with reform of audit in local government more widely by removing a complex, and specialist area from the main administering authority accounts. This would be helpful as part of the wider goal in ensuring the timely and robust audit of local authority accounts, benefiting the health of the LGPS and local government finance in general.”

On 15 February 2023 the Minister now responsible for the LGPS, Lee Rowley MP sent a response to the SAB which indicated that the DLUHC is actively considering the SAB recommendation to completely separate the Pension Fund Annual Accounts of English LGPS Funds.

“I recognise the scope and complexity of issues affecting external local audit, and the impact that this is having on reporting by local authorities and LGPS funds. The Pension Fund Annual Reports and the Scheme Annual Report are vital in maintaining transparency and accountability of the LGPS to members, employers, and taxpayers...”

“ I welcome the Board’s advice and recommendation to consider the separation of main authority accounts and the pension fund accounts, in addition to the package of support for local audit already in place. I have asked my officials to consider the scope for developing this further.”

5. Consultation on changes to the SAB Cost Management process

The Public Service Pensions Act 2013 introduced into the major public service pension schemes, including the LGPS, a cost control mechanism to seek to ensure the cost of providing pensions is kept within a cost range. The cost control mechanism is primarily concerned with calculating the cost of providing benefits to Employees of each of the seven major public service pension schemes (Civil Service, NHS, Teachers, Police, Fire, Judiciary, LGPS).

For the LGPS in England and Wales there are two cost control mechanisms:

- The employer cost cap (ECC) process as operated by HM Treasury.
- The future service cost (FSC) process as operated by the LGPS Scheme Advisory Board (SAB).

The seven major public service pension schemes are subject to the cost cap process operated by HM Treasury. However as the LGPS (alone) is a funded Scheme a second cost management process was established. The can use different assumptions around the cost of providing member benefits, for example, it can use a different discount rate to reflect that the LGPS is a funded scheme. The SAB process operates prior to the HM Treasury process, and recommendations made as a result (and accepted by government) are considered when calculating the scheme costs for the purpose of the HM Treasury process.

If either cost control process shows that the costs of providing benefits have risen or fallen outside of a target level, recommendations can or must (in certain circumstances) be made which would bring them back to target. These may include additions to or reductions to future benefits and adjustment of Employee contribution rates.

In 2021 the Government Actuary undertook a review of the cost cap process as operated by HM Treasury. This resulted in the Government making certain changes to this process including widening the corridor from 2% to 3% of divergence of pensionable pay from the target cost required to result in a breach of the cost control mechanism resulting in a reduction in the likelihood of changes to a Scheme.

On 30 January 2023 DLUHC launched a Consultation (which closes on 24 March 2023) entitled “**Local Government Pension Scheme: Changes to the Scheme Advisory Board cost management process**” The Consultation aims to update the SAB process in light of the 2021 changes to the HM Treasury cost control process and to provide the SAB with greater flexibility in how it responds to any cost variations.

6. Reclassification of Further Education sector

On 29 November 2022 the Office for National Statistics (ONS) announced that it had reclassified statutory Further Education (FE) sector bodies (FE colleges, Sixth Form Colleges and designated institutions) and their subsidiaries in England. As a result of this review these bodies have been reclassified by the ONS from Non Profit Institutions to the Central Government Sector. In effect this means that these bodies are now part of Central Government.

Schedule 2 Part 1 of the LGPS Regulations 2013 requires Further Education bodies to offer their non-teaching staff membership of the LGPS. Presently the Department for Education (DfE) does not provide a central government guarantee and therefore there is a high risk for a LGPS Fund should a Further Education body become insolvent. Furthermore the DfE Policy paper “**Further education reclassification: government response**” (published 29 November 2022) states “*The reclassification of the FE sector does not require any action for colleges with regards to the local government pension scheme.*” Therefore the Government has not committed to providing any additional covenant assurances or guarantees for Further Education employers.

Going forward were central government to provide a guarantee it would potentially provide more support in respect of Further Education liabilities. Furthermore the SAB has stated that it will be discussing the wider implications of this change in classification with the Department for Education. However even if a guarantee were provided the impact of the reclassification would need to be assessed by each LGPS Fund for each of its Further Education employers and decisions taken as to whether any changes in the funding approach to such employers be made.

7. LGPS Pensions Increase 2023

On 20 February 2023 The Treasury issued an announcement and the Chief Secretary to the Treasury made a written statement regarding the 2023 increase in public sector pensions. These confirmed that LGPS pensions will be increased by 10.1% from April 2023. Therefore the practice that LGPS pensions in payment, deferred benefits, and benefits earned by Active Members of the LGPS since 1 April 2014, be increased in April in line with the increase in CPI inflation as at the previous September has been maintained for 2023.

John Raisin

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John Raisin Financial Services Limited
Company Number 7049666 registered in England and Wales.
Registered Office Market House, 10 Market Walk, Saffron Walden, Essex, CB10 1JZ
VAT Registration Number 990 8211 06