



Pension Board
25 March 2024

**Report from the Corporate Director,
Finance and Resources**

LGPS Update Report

Wards Affected:	All wards
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
List of Appendices:	<p>8:</p> <p>Appendix 1 - LGPC Bulletin – November 2023</p> <p>Appendix 2 - LGPC Bulletin – December 2023</p> <p>Appendix 3 - LGPC Bulletin – January 2024</p> <p>Appendix 4 - LGPC Bulletin – February 2024</p> <p>Appendix 5 - SAB Guidance on Academy Conversions</p> <p>Appendix 6 - DLUHC Prioritisation for McCloud</p> <p>Appendix 7 - Teachers’ Pensions Transitional Protection for McCloud</p> <p>Appendix 8 - TPR Cyber Security Guidance</p>
Background Papers:	None
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1.0 Executive Summary

1.1 The purpose of this report is to update the Board on recent developments within the Local Government Pension Scheme (LGPS) regulatory environment and any recent consultations issued which would have a significant impact on the Fund.

2.0 Recommendation(s)

2.1 The Committee is asked to note the recent developments in the LGPS.

3.0 Detail

3.1 Contribution to Borough Plan Priorities & Strategic Context

3.1.1 The work of the Pension Fund is critical in ensuring that it undertakes statutory functions on behalf of the Local Government Pension Scheme and complying with legislation and best practice. Efficient and effective performance and service delivery of the Pension Fund underpins all Borough Plan priorities.

3.2 Background

Scheme Advisory Board (SAB)

3.2.1 On 19 October 2023, the SAB published its guidance on Academy Conversions attached in Appendix 5. It builds on the existing guidance and incorporates the latest developments.

3.2.2 On 25 October 2023 DLUHC published the LGPS statistics for 2022/23 and the highlights include;

- total expenditure was £15.2 billion, an increase of 5.1 per cent on 2021/22,
- total income was £17.3 billion, an increase of 8.5 per cent on 2021/22, employers' contributions amounted to £8.4 billion, an increase of 7.8 per cent on 2021/22,
- employee contributions were £2.8 billion, an increase of 9.5 per cent on 2021/22,
- the market value of the LGPS funds at the end of March 2023 was £357.2 billion, a decrease of 1.9 per cent,

- there were 6.2 million scheme members on 31 March 2023: 2 million active members, 1.9 million pensioners and 2.3 million deferred member and
 - there were 87,129 retirements, a decrease of 8 per cent compared with 2021/22.
 - overall, the financial health of the scheme is positive and continues to improve.
- 3.2.3 The SAB instructed Lydia Seymour (Counsel) to determine whether a disproportionate number of (predominantly) Islamic members were opting out because of their religious beliefs and whether it amounted to unlawful discrimination.
- 3.2.4 The Board subsequently received a report on the relationship between the LGPS and sharia law from Mufti Faraz Adam and it concludes that as a part of the contractual arrangement between employer and employees, Muslim employees can continue to contribute to, and benefit from, the excellent benefits offered by the LGPS.
- 3.2.5 The aim of the Board in commissioning the report was to address possible legal risk for scheme employers, and also to ensure that the LGPS is as inclusive as possible. The Board will now go back to Counsel for her definitive opinion and will consider that advice at the earliest opportunity.
- 3.2.6 The Local Government Association (LGA) published a briefing in anticipation of the second reading of the Economic Activity of Public Bodies (Overseas Matters) bill on 20 February 2024. It reiterated some points and suggested amendments that the LGA would support.

2024/25 employee contribution bands and Pensions in Payment

- 3.2.7 Table 1 below shows employee contribution bands, which will be effective from 1 April 2024. These are calculated by increasing the 2023/24 employee contribution bands by the September CPI figure of 6.7%. Details of the 2024/25 pay award are not yet known, however in 2023/24 the average pay award was significantly lower than the prevailing rate of CPI inflation. As the employee contribution bands are being uplifted by a higher rate than the average pay award there are likely to be more members of staff dropping into a lower band than in previous years. This will reduce the contributions payable to the Fund by members. This will have a small negative impact on the cashflow position of the Fund in the short term; however, higher inflation expectations have been factored into the 2022 valuation therefore it is not a cause for concern in the longer term.

Table 1: Contribution table England and Wales 2024/25

Band	Actual pensionable pay for an employment	Main section contribution rate for that employment (%)	50/50 section contribution rate for that employment (%)
1	Up to £17,600	5.5	2.75
2	£17,601 to £27,600	5.8	2.90
3	£27,601 to £44,900	6.5	3.25
4	£44,901 to £56,800	6.8	3.40
5	£56,801 to £79,700	8.5	4.25
6	£79,701 to £112,900	9.9	4.95
7	£112,901 to £133,100	10.5	5.25
8	£133,101 to £199,700	11.4	5.70
9	£199,701 or more	12.5	6.25

3.2.8 LGPS pensions are adjusted each April in line with the cost of living. The increase is measured by the annual increase in the Consumer Price Index (CPI) to September and is applied to pensions from the following April. The increase that will be applied from 8 April 2024 is 6.7%.

HMRC

3.2.9 On 2 November 2023 His Majesty's Treasury (HMT) confirmed that the lifetime allowance (LTA) will be abolished from 6th April 2024 and published a policy paper on the abolition of the Lifetime Allowance.

3.2.10 HMRC has published its October 2023 public sector pensions remedy letter, Local Government Pension Scheme Guidance for members (5 October 2023) and guidance for administrators (5 October 2023).

3.2.11 HMRC's December Lifetime allowance Guidance newsletter was updated on 8 February 2024.

3.2.12 HMRC's February life-time allowance guidance was updated on 27 February 2024: -

- The maximum lump sum and death benefit allowance is £1,073,100
- The maximum lump sum allowance is £268,275

3.2.13 HMRC published newsletters 155 on 7 February 2024 and 156 on 23 February 2024

3.2.14 The Finance Bill, which abolishes the lifetime allowance, received royal assent on 22 February 2024.

McCloud

3.2.15 On 12 October 2023, DLUHC published its initial prioritisation policy for McCloud which is attached in Appendix 6.

- 3.2.16 Although some transfers are on hold, DLUHC has confirmed that Administering Authorities can continue to pay interfund transfers for members with an underpin using the current actuarial guidance and they will not need to review them when the guidance is updated. However, they must send the receiving authority the information they need to calculate accurate underpins.
- 3.2.17 In the past, whole-time teachers could not be in the Teachers' Pension scheme in respect of a concurrent part-time teaching role and, therefore, it has been designated as "excess service". This group will become eligible for retrospective membership of the LGPS from 1 April 2015 – 31 March 2022 based on their part-time excess service (Appendix 7).
- 3.2.18 The LGA e-mailed administering authorities a spreadsheet for calculating the non-club element of transfers affected by McCloud on 24 February 2024.
- 3.2.19 The LPPA has advised that us that Civica (UPM) will load the red flags, which identify potential underpin cases, in about two weeks. The next stage is to run comparisons for all leavers since 31 March 2014.

Pensions Dashboard

- 3.2.20 The Pensions Administrations Standards Authority (PASA) has issued its Pension Dashboard Connection Ready Guidance and it covers governance, matching, value data, technology and administration.
- 3.2.21 The Financial Reporting Council (FRC) issued a revised Actuarial Standard Technical Memorandum 1 (ASTM1) on 9 February 2024. Although it is designed for money purchase schemes it also covers LGPS additional voluntary contributions (AVCs). The data will be shown on pension dashboards and administering authorities will need to understand the process.
- 3.2.22 The Department of Work and Pensions (DWP) published updated guidance on deferring dashboards connection on 2 February 2024 and it sets out the issues that administering authorities should consider.
- 3.2.23 The digital architecture of pensions dashboards consists of three elements; the identity service, the consent and authorisation service and the pension finder service. The Principal of the Pension Dashboards Programme (PPD) published a blog on how it works on 13 February 2024.

The Pension Regulator (tPR)

- 3.2.24 TPR has updated its cyber security guidance, attached in Appendix 8, to help scheme managers to fulfil their duties. Officers understand that Brent's current cyber security strategy is compliant with the existing codes and they will work in concert with their advisers to ensure they evolve to meet any new requirements when the Single Code of Practice is introduced on 27 March 2024.

3.2.25 TPR published its report into the Capita cyber incident in March 2023 on 2 February 2024.

3.2.26 TPR has reiterated its warnings about pension scams and it has reminded scheme managers to be vigilant.

The Pension Regulator's (tPR) – Single Code

3.2.27 The Single Code consolidates ten of the existing codes and incorporates content from all 15 when it comes into force on 27 March 2024.

3.2.28 The document covers 51 modules in 171 pages and there is no requirement to comply immediately.

3.2.29 It will take Administering Authorities time to digest the code and identify which elements apply to the LGPS.

3.2.30 There are five sections within the code; the Governing Body, Funding and Investment, Administration, Communications and Disclosure and Reporting to tPR

Governance

3.2.31 In the LGPS the scheme manager is identified as the governing body, albeit that the role appears to be a composite of the Board, the Committee and officers.

3.2.32 The code requires effective systems of governance (ESOG) with greater emphasis on documentation of policies and procedures.

3.2.33 The scheme should carry out its own risk assessment (ORA) to identify the main governance risks facing the LGPS and it is good practice to develop business continuity / disaster recovery plans.

3.2.34 The module on cyber controls focuses on reducing the number of incidents and addressing any that may arise. Although this is identified as good practice the code sets out the legal obligations of public sector pension schemes.

3.2.35 The code expects schemes to have procedures and controls governing the selection and management of advisors and service providers that are supported by an effective conflicts of interest policy.

3.2.36 The code extends the requirements for Board and Committee members knowledge and understanding to include investment management and financial risk.

Investment

3.2.37 The code includes modules on investment governance, investment monitoring and climate change although they are identified as good practice, as opposed to a requirement, for the LGPS.

Administration

3.2.38 The module on administration focuses on planning service delivery, conducting sound financial transactions, data security and maintaining IT systems.

Communications and disclosure

3.2.39 These modules set out general principles for scheme communications and observing the disclosure requirements. There is also a strong emphasis on scam prevention.

TPR compliance

3.2.40 The single code presents fresh challenges and the LGPS and its advisors are currently reviewing the changes. Professional advisors are developing self-assessment tools to help schemes gauge their compliance and monitor their progress.

Conclusion

3.2.41 The LGPS already has high standards of governance and the new code represents evolution rather than revolution.

3.2.42 The regulator has made it clear that they do not expect full compliance overnight and Administering Authorities should concentrate on assessing where they are now and charting a course to where they need to .

3.2.43 Brent's officers will work with its advisors to ensure that its policies and procedures are compliant with the Single Code of Practice and it will publish reports that explain any changes and seek approval from the Board.

4.0 Stakeholder and ward member consultation and engagement

4.1 This is not applicable to this report.

5.0 Financial Considerations

5.1 There are no specific financial implications associated with this report.

6.0 Legal Considerations

6.1 There are no specific legal considerations arising from this report.

7.0 Equity, Diversity & Inclusion (EDI) Considerations

7.1 There are none directly arising from this report.

8.0 Climate Change and Environmental Considerations

8.1 There are none directly arising from this report.

9.0 Human Resources/Property Considerations

9.1 There are none directly arising from this report.

10.0 Communication Considerations

10.1 None that are applicable to this report.

Report sign off:

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