Brent	**Pension Board** 08 November 2023
	Report from the Corporate Director, Finance and Resources

Local Government Pension Scheme Update

Wards Affected:	All Wards
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
List of Appendices:	Six: Appendix 1 - LGPC Bulletin – July 2023 Appendix 2 - LGPC Bulletin – August 2023 Appendix 3 - LGPC Bulletin – September 2023 Appendix 4 - McCloud and Your LGPS pension Appendix 5 – Scheme Advisory Board Consultation on Investment Pooling Appendix 6 - 2022 Scheme Valuation Report
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

The SCAPE discount rate

3.2.1 The SCAPE discount rate has been reduced from CPI plus 2.4% to CPI plus 1.7% from 30th March 2023, which increases the notional cost of providing pension benefits.

3.2.2 This has led to the Government Actuary Department (GAD) revising all the factors and they are prioritising transfers, early and late retirement factors.

3.2.3 Although club transfer factors have been produced all transfers are on hold for technical reasons.

3.2.4 All contracts to purchase additional pension (APCs) will have to be revised in April. As the cost of purchasing APCs will increase it is likely that some existing contracts will terminate and there will be fewer new ones.

Cost control mechanism

3.2.5 The cost control mechanism is intended to keep the cost of providing pension benefits within a 3% affordability corridor. It consists of two tests; a core test which measures the cost of providing pension benefits and an economic check to determine whether any excessive fluctuation is temporary or systemic.

3.2.6 The core mechanism of the cost cap still uses a discount rate of CPI plus 3%, which would ordinarily have seen the cost of providing pension benefits falling due to a decline in longevity. However, the reduction in the SCAPE discount rate (CPI plus 1.7%) increases cost and more than offsets the potential reduction keeping variation within the 3% corridor.

McCloud

3.2.7 HM Revenue and Customs (HMRC) has laid two sets of rectification regulations and Department for Levelling Up, Housing and Communities (DLUHC) has laid the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023, which take effect from 1 October 2023.

3.2.8 The two sets of tax rectification regulations ensure that any underpin does not count towards the pension input amount (annual allowance).

3.2.9 The LGPS regulations amend the underpin to make it work.

3.2.10 DLUHC is producing statutory guidance confirming that members do not need to aggregate their membership to benefit from an underpin.

3.2.11 The scope of McCloud has broadened to cover all members of a public sector pension scheme with membership between 1st April 2012 an 31st March 2014 who have not had a break in membership of a public sector pension scheme of five years or more.

3.2.12 We will need to know the hours that eligible members worked and whether they had any breaks in service.

3.2.13 Annual benefit statements will need to record any potential underpin from 2025.

3.2.14 The software providers including the Fund's provider Civica (UPM) are finding it a challenge to implement developments relating to McCloud on their systems.

3.2.15 DLUHC and the SAB have published a McCloud fact sheet which provides useful information on what the McCloud judgment is, how the LGPS is changing and a flow chart to check if you are affected. This is attached in Appendix 4.

3.2.16 There will be a further consultation on McCloud in February 2024.

The extension of auto enrolment

3.2.17 The Pensions (Extension of Automatic Enrolment) Act 2023 received Royal Assent on 18th September 2023. It enables the Government to make regulations that will lower the minimum age for automatic enrolment from 22 to 18 and remove the lower earnings limit for contributions.

HMRC

3.2.18 On 18 July 2023, HMRC launched a consultation on abolishing the pensions lifetime allowance on 6th April 2024.

3.2.19 The maximum tax-free lump sum payable will be restricted to £268,275 unless the member holds valid lifetime allowance or lump sum protection.

3.2.20 If the lump sum exceeds the £268,275 limit the excess will be taxed at the member's marginal rate.

3.2.21 Administrators will still have to perform lifetime allowance checks, but there will be no charges.

3.2.22 The annual allowance was increased to £60,000 from 6th April 2023.

Pensions dashboard

3.2.23 The Pensions Dashboards (Amendment) Regulations 2023, which came into force on 9 August 2023 make changes to the connection deadline and the deferred connection rules. The connection deadline for all relevant schemes is 31 October 2026.

SAB consultation on investment pooling

3.2.24 DLUHC published a consultation on the next steps for LGPS investments on 11 July 2023 which sought views on proposals relating to asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments. The consultation closed on 02 October 2023 and the report to the Pension Fund Sub-committee on 04 October 2023 on this topic is included in the agenda pack.

3.2.25 The Scheme Advisory Board's (SAB) response to the consultation is attached in Appendix 5. They feel that increasing attempts by the UK Government to interfere in asset allocation is unhelpful and the Private Equity target is case in point. Asset allocation is the key determinant of success and it requires careful consideration of the specific circumstances of the fund that is based on expert professional advice from actuaries, economists, investment consultants and others.

3.2.26 Most funds are keen to invest in place-based Levelling Up initiatives where particular projects can be shown to be consistent with the fund's fiduciary duty and appetite for risk. SAB would like to see a more considered approach to addressing the key barriers of scale and supply.

3.2.27 If UK infrastructure projects are to compete with others around the world the Government needs to adopt a more activist strategy and offer comparable levels of transitional funding to jurisdictions such as the United States and the European Union.

The 2022 SAB Scheme valuation report

3.2.28 The report was published on 10th August 2023 and it is based on data drawn from local fund valuation reports. The report has been attached in Appendix 6.

3.2.29 All valuation reports show an improvement since 2019 and the average funding level has increased from 98% to 107% in 2022. This corresponds to an improvement from a deficit of £5.9bn at 2019 to a surplus of £22.1bn at 2022.

Brent’s funding level improved from 78% to 87% in line with the national average.

3.2.30 The average primary (future) contribution rate has increased from 18.6% of payroll in 2019 to 19.8% of payroll in 2022.

3.2.31 Overall contribution rates fell from 22.9% of payroll in 2019 to 21.1% of payroll in 2022, which is mainly due to lower deficit contributions.

The Pension Regulator (tPR)

3.2.32 The long delayed tPR single code is expected shortly.

DLUHC

3.2.33 DLUHC is expected to produce amendment regulations for widower’s pensions (flowing from the Goodwin appeal in Teachers’ Pensions). Widower’s pensions are currently restricted to post 6th April 1988 membership and relevant additional membership (RAM) for post-leaving marriages and are, therefore, gender/orientation discriminatory.

3.2.34 It is also expected to remove the age 75 restriction on death grants as it is age discriminatory.

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 Equality, 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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