

Pensions Investment Review: Call for Evidence

I respond on behalf of the Local Government Pensions Committee (LGPC).

The LGPC is a committee of councillors constituted by the Local Government Association (LGA). It represents employers' interests and considers policy and technical matters affecting the LGPS.

Scale and consolidation

The policy remit set out in the Terms of reference refers to the consolidation and improved governance of the LGPS. However, the call for evidence refers to this consolidation in the context of investment only.

Whilst our response assumes that consolidation of LGPS administration is not in scope for the first phase, we would like to stress that the starting point for any change to the structure of the LGPS should be evidenced based. The Government needs to be clear about the rationale for change and the outcomes it is seeking to achieve. It must ensure that the significant risks associated with any structural change are fully considered.

The LGPS is a well-run scheme. Most LGPS funds were in surplus at the 2022 valuation. The average employer contribution rate is 21 per cent¹, which compares favourably with other public service pension schemes. The number of complaints referred to the Pensions Ombudsman is very low – and most of these relate to the less than ideal three tier ill health provisions.

Much has been made of the increase in LGPS administration costs. This must be put in context. LGPS administering authorities are currently in the process of implementing the McCloud remedy. The remedy removes the unlawful age discrimination introduced by the Government when all public service pension schemes were reformed. This is a huge administrative project that requires the collection of historic payroll data and recalculation of all leavers over an eight-year period.

In addition, there is a large amount of resource being put into the introduction of Pensions Dashboards, the introduction of the Pensions Regulator's new General Code, the recent major change to pension tax and the increased focus on governance. This is all being managed in a sector where recruitment and retention is a real concern.

¹ [LGPS Scheme Advisory Board - 2022 Valuations - Report \(lgpsboard.org\)](https://www.lgpsboard.org/)

On the issue of administration costs, we would like to remind Government that both the Firefighters' and Police pension schemes received funding from the Home Office to help with the administration costs of the McCloud remedy project; however, no equivalent funding was provided by MHCLG for LGPS administering authorities.

Costs vs Value

The LGPC urges caution about any Government intervention that would impact on fiduciary duty.

Employers' key concern is affordability. It is vital that LGPS administering authorities are able to continue investing in the best financial interests of scheme members and employers. The primary purpose of investment must be to achieve the required returns to pay pensions when they become due. This will minimise the need for additional funding from employers or local taxpayers.

Local authorities make up 18.3 per cent of the total numbers of employers in the LGPS but represent 74.4 per cent of the active membership. The remainder is made up of centrally funded employers eg academies and FE colleges, other public sector bodies, private contractors, and voluntary sector organisations.

On the issue of affordability, we are aware that some centrally funded employers are incentivising staff to join an alternative pension scheme to the Teachers' Pension Scheme (TPS). This is inevitably due to the increased employer contribution rate in the TPS. If this were to be replicated in the LGPS, this would lead to a reduction in membership and a reduced investment budget. The LGPC urges Government to consider whether this type of action is within the spirit of the Pensions Act 2008 and whether any strengthening of the safeguarding provisions in the Act are needed.

Finally, one way to increase investment budgets would be to increase the membership of the scheme by introducing Fair Deal into the LGPS. This will ensure members continue to have access to the LGPS when their employment is compulsorily transferred.

Investing in the UK

Again, we urge caution about any incentives or requirements that would impact on fiduciary duty.

There is already good work being done on investing in local areas eg Greater Manchester Pension Fund. The LGPC recommends that Government implements the Scheme Advisory Board's Good Governance recommendations. This would ensure that all decision-makers have the skills and knowledge necessary to consider local investments confidently and properly manage conflicts of interest.