

	Pension Board 22 March 2023
	Report from the Corporate Director, Finance and Resources
LGPS Update	

Wards Affected:	ALL
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
No. of Appendices:	Seven Appendix 1 - LGPC Bulletin 230 – October 2022 Appendix 2 - LGPC Bulletin 231 – November 2022 Appendix 3 - LGPC Bulletin 232 – December 2022 Appendix 4 - LGPC Bulletin 233 – January 2023 Appendix 5 - LGPC Bulletin 234 – February 2023 Appendix 6 - Briefing note on annual revaluation date change Appendix 7 - Minister response to SAB letter on External Audit
Background Papers:	N/A
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1.0 Purpose of the Report

- 1.1 The purpose of this report is to update the committee 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 Board is asked to note the recent developments in the LGPS.

3.0 Detail

LGPS statistics for 2021/22

3.1 In October 2022, Department for Levelling Up, Housing and Communities (DLUHC) published the Local Government pension scheme statistics for 2021/22. Highlights include:

- Total expenditure of £14.4 billion, an increase of 6.6 per cent on 2020/21. This was driven in part by an increase in lump-sum retirement payments.
- Total income of £15.9 billion, a decrease of 8.1 per cent on 2020/21.
- Employer contributions decreased by 24.3 per cent on 2020/21 to £7.8 billion. This decrease in total income and employer contributions is common in the final year of the three-year valuation cycle due to employers making early payment of contributions in the previous two years.
- The market value of LGPS funds on 31 March 2022 was £364 billion, an increase of 8 per cent.
- There were 6.3 million scheme members on 31 March 2022: 2.0 million active members, 1.9 million pensioners and 2.3 million deferred members.

SAB statement on employer contributions

3.2 At its meeting on 10 October 2022, the SAB discussed emerging results from the 2022 valuations. The Board understands and recognises the extremely challenging position for local government finance. However, it asks administering authorities and other Scheme employers to have regard to the desirability of long-term stability in pension contributions when considering whether reductions in employer contributions are desirable as a result of an improved funding position.

3.3 The Fund has discussed this statement with the Fund actuary and there is no reason to have concern over the contents of the statement or cause the Fund to review or alter the assumptions, funding plans and contribution rates that have been agreed. Also, the Fund uses a prudent discount rate and operates an explicit stabilisation mechanism for the Council, schools and academies.

2023/24 employee contribution bands and Pensions in Payment

3.4 Table 1 below shows employee contribution bands, which will be effective from 1 April 2023. These are calculated by increasing the 2022/23 employee contribution bands by the September CPI figure of 10.1%. Details of the 2023/24 pay award are not yet known, however in 2022/23 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 is 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, 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 2023/24

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 £16,500	5.5	2.75
2	£16,501 to £25,900	5.8	2.90
3	£25,901 to £42,100	6.5	3.25
4	£42,101 to £53,300	6.8	3.40
5	£53,301 to £74,700	8.5	4.25
6	£74,701 to £105,900	9.9	4.95
7	£105,901 to £124,800	10.5	5.25
8	£124,801 to £187,200	11.4	5.70
9	£187,201 or more	12.5	6.25

- 3.5 LGPS pensions are adjusted each April in line with the cost of living. The increase is measured by the September to September adjustment in the Consumer Price Index (CPI) and is applied to pensions from the following April. The increase that will be applied from 10 April 2023 is 10.1%.

Consultation on the annual revaluation date change

- 3.6 DLUHC issued a consultation on changing the in scheme revaluation date from 1 to 6 April, with effect from 1 April 2023 and thereafter on each 6th of April. The proposed change will remove the impact of high inflation on the annual allowance (AA) and reduce the number of members incurring a tax charge. The consultation ran for two weeks and closed on 24 February 2023.
- 3.7 The AA should reflect the increase in a member's pension benefits above inflation and as things currently stand, the allowance for inflation in the AA calculation does not match the annual revaluation applied to pension accounts. Until now this has not been a significant issue because inflation has been low.
- 3.8 However, the imbalance for tax year 2022/2023 is 7 per cent. Consequently, without changes to scheme regulations, there will be a significant increase in the number of LGPS members breaching the annual allowance and potentially incurring a tax charge. By moving the annual revaluation to 6 April the imbalance is removed. The Fund's actuarial advisors have produced a briefing note on this subject which is attached in Appendix 6.

Minister responds to SAB letter on External Audit

3.9 Lee Rowley MP, Minister for Local Government, has responded to a letter written to him in August 2022 by the Scheme Advisory Board. He welcomed the Board's advice and recommendation to consider the separation of main authority accounts and the pension fund accounts and has asked his officials to consider the scope for developing this further. The full contents of the letter are attached in Appendix 7.

4.0 Financial Implications

4.1 This report is for noting, so there are no direct financial implications.

5.0 Legal Implications

5.1 Not applicable.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off:

Minesh Patel

Corporate Director Finance and
Resources