

Pensions Board

17 October 2023

Report title	Regulatory Update	
Originating service	Pension Services	
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Recommendations for action:

The Pensions Board is asked to note:

1. Developments within the current regulatory environment in which the Fund operates.

1.0 Purpose

- 1.1 To provide members of the Board with an update on the regulatory environment, potential forthcoming changes across the Local Government Pension Scheme (LGPS) and the wider pensions industry.

2.0 Introduction and Overview

- 2.1 Pension Board will be aware that the LGPS (and wider pensions industry) has been anticipating a number of regulatory changes and proposed consultations over the last 18 months, all of which have the potential to impact the Fund's operations and resources in not only implementing the changes, but also in relation to the training of employees and providing updated information to members and employers to enable their ability to take appropriate decisions.

- 2.2 At this time, there is still a range of consultations and/or outcomes pending some of which are outlined in more detail in this report. The Fund is aware that the Scheme Advisory Board (SAB) continues to be at the forefront of discussions on behalf of LGPS Funds and the Fund's Senior Officers continue to engage through its position on national discussion groups. Since the Board met in July, the following has emerged:

- Confirmed delay in Government response and requirements on LGPS Funds following the LGPS climate reporting consultation (Department for Levelling Up, Housing and Communities (DLUHC))
- Publication of economic activity of public bodies (overseas) bill (DLUHC-sponsored)
- The Chancellor's Mansion House speech and related consultations and call for evidence, including to LGPS-specific investment consultation (DLUHC)
- Confirmation that a new and extended longstop date will apply for compliance with the pensions dashboard requirements (pensions minister)
- Consultation on changes to the lifetime allowance (tax threshold) for pensions savings
- Delay in finalisation and publication of the single/general code from the Pensions Regulator
- Publication of regulations relevant to the implementation of the McCloud remedy within the LGPS (DLUHC)

3.0 DLUHC – Next Steps on Investments Consultation

3.1 Background

During the Summer budget in 2015, the Chancellor announced his intention to invite Administering Authorities to bring forward their proposals for pooling investments in the LGPS, with the aim of achieving 4 set criteria:

1. Asset Pools that achieve the benefits of scale
2. Strong Governance and decision making
3. Reduced costs and excellent value for money

4. An improved capacity to invest in infrastructure

- 3.2 Since that time and following the publication of regulations and guidance for the LGPS in 2016, LGPS Central Pool has worked collaboratively to achieve the aims set out by Government; including through the establishment of a pool (Financial Conduct Authority (FCA) regulated) operator company as outlined as a requirement of Government, by the Minister for Communities and Local Government in August 2017.
- 3.3 Five years on (and in the absence of further guidance emerging following the consultation in 2019) it is recognised and accepted that at the outset of pooling, there were differing views across the LGPS on what pooling would mean and deliver for LGPS Funds with a varied approach developing across the eight pools, while recognising local accountability and the overriding objective of the LGPS Administering Authorities in paying pension benefits to members when they fall due to.

4.0 July 2023 Consultation

- 4.1 On the 10th July 2023, the Chancellor set out his Mansion House speech which included the proposed consultation on investment within the LGPS, the consultation being published the following day (with a closing date of 2 October 2023).
- 4.2 In his Speech, the Chancellor noted the desire to “accelerate the consolidation of pension assets by March 2025”, with proposals to increase transparency, cost savings and the scale of LGPS investment pools while noting that Investment Strategy remained a decision of the individual Funds.
- 4.3 The five areas considered within in the consultation are set out below:
- Proposals to accelerate and expand investment pooling, with the aim of increasing the pace of transition, in order to achieve further benefits, improved net returns, more effective governance, increased savings and access to more asset classes.
 - A requirement for Funds to have a plan to invest up to 5% of assets to support levelling up in the UK.
 - To increase investment in high growth companies via unlisted equity.
 - To propose amendments to the LGPS investment regulations which related to the use of investment consultants and including a requirement to set out strategic objectives for those consultants with a formal review every 3 years.
 - To make a technical change to the definition of investments in the LGPS regulations in relation to partnership arrangements so they fall within the definition of investments.
- 4.4 Following issue of the briefing note to all Governing Body members early September and discussion at the September Pensions Committee meeting, the Fund submitted its response by the deadline of 2 October 2023 and this has been shared with members of the Board. The response was informed by a range of engagement across the industry, stakeholders and peers including partners within the LGPS Central Pool.

5.0 'Mansion House Consultations'

- 5.1 On 10 July the Chancellor delivered his annual Mansion House speech outlining reforms to support pension savings and increase investments in UK based business, this included a number of consultations that were issued over the summer period setting out the Governments plans to deal with some of the key issues facing the wider pensions industry.
- 5.2 The speech notes an increasing direction of travel towards (private sector) consolidation noting evidence submitted over the last 2 years that larger funds are better governed. The growing focus on knowledge and skills and those with responsibility for making decisions and managing pension funds is apparent and is reflective of the position taken in numerous regulatory guidance, including the Chartered Institute of Public Finance Accountancy (CIPFA) Knowledge and Skills and the Scheme Advisory Board's Good Governance Review, on which the Fund forms it's Governing Body training policy.
- 5.3 There continues to be a focus on member engagement, knowledge and awareness, building on the objectives set by the pensions dashboards project enabling members' decision making on how best to manage and access their pension benefits as well as member protections. The Board will recall the Fund is a signatory to the Pension Regulator's pension scam pledge, together with ensuring members are getting value for money from their pension (the Fund is engaging in industry wide benchmarking activity such as CEM to assess its value for money service delivery).
- 5.4 In line with the Pooling consultation, the speech further built on proposals for UK investment and Levelling Up, driving growth in UK economy.
- 5.5 The Fund continues to monitor the proposals and activity noting that the proposals would be subject to wide ranging legislation reforms which would likely require further consultation before being implemented.

6.0 McCloud Regulations

- 6.1 On the 8 September, Government issued its response to the consultation 'McCloud remedy in the LGPS – supplementary issues and scheme regulations' which closed on 30 June 2023. This consultation covered proposals around aggregation, club transfers, flexible retirement, divorce, injury allowances, compensation, interest and excess teacher service and has been anticipated by Funds to confirm how the remedy would be implemented across affected members.
- 6.2 Overall, the response confirms that the proposals in the consultation will be implemented and where it is required, updated Government Actuary's Department guidance will be issued as soon as possible, in addition to an updated Public Sector Transfer Club memorandum. A national working group has been set up to consider the areas where guidance is needed, and the response sets out some of the areas where guidance will be statutory and where it will be non-statutory. Statutory guidance will be issued where it is necessary to have a consistent approach on areas not already achieved through regulations. This will include the prioritisation of McCloud cases and how to identify which

members qualify for McCloud protection where there could be earlier service in another LGPS fund or another public service pension scheme. Other areas will have non-statutory guidance, such as administrative guidance and complex case examples, and how to deal with flexible retirement cases. Where a need for guidance is identified, there will be a technical consultation with selected stakeholders representing those affected. There are still some areas where additional regulations are needed (particularly for dealing with excess teacher service) and a further consultation on these will follow in due course with selected stakeholders.

- 6.3 The only amendment to the original proposals is in the area of interest, where there is a small change to the way interest will be applied to additional Pension Commencement Lump Sums.
- 6.4 The implementation of these revised regulations is a major scale project for the Fund, with the requirement to finalise and collect missing and erroneous data, amend the system calculations to enable calculations of the new regulations going forward, and also to undertake rectification calculations on previous casework due to the retrospective application of the regulations. The Fund are working with the new software supplier on the changes required to the pension administration system and considering the wider communications to be issued to our customers.

7.0 Abolition of the Lifetime Allowance

- 7.1 As part of a package of reforms announced in the Chancellor's March 2023 budget, the Pension Lifetime Allowance, designed to cap tax relief on pension saving, was to be abolished. Government is now seeking to clarify the tax treatment of pension savings and how limits will apply to pension and lump sums from April 2024. The proposals are beneficial to members who may be caught by the tax provisions as their payments will now be taxed on their relevant tax rate (as opposed to the higher rate), however has the potential to further increase the workloads for pension funds with the need to apply individual calculations to lump sum payments.

8.0 Financial Implications

- 8.1 There are no direct financial implications.

9.0 Legal Implications

- 9.1 There are no legal financial implications.

10.0 Equalities Implications

- 10.1 There are no direct equalities implications.

11.0 Other Implications

- 11.1 There are no potential other implications.

12.0 Schedule of Background Papers

- 12.1 LGPS: Next Steps on Investments Consultation: [Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments)
- 12.2 Options for defined benefit schemes: [Options for Defined Benefit schemes: a call for evidence - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/options-for-defined-benefit-schemes-a-call-for-evidence)
- 12.3 Pension Trustee Skills, Capability and Culture: [Pension trustee skills, capability and culture: a call for evidence - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/pension-trustee-skills-capability-and-culture-a-call-for-evidence)
- 12.4 Abolition of the lifetime allowance: <https://www.gov.uk/government/publications/abolishing-the-pensions-lifetime-allowance>

13.0 Schedule of Appendices

- 13.1 None.