

Report for: Pensions Committee and Board – 13 July 2023

Item number:

Title: Independent Advisors LGPS Update

Report

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Ward(s) affected: N/A

Report for Key/

Non Key Decision: Not applicable

1. Describe the issue under consideration

1.1. This report provides the Pensions Committee and Board (PCB) with an update on the important issues related to the Local Government Pension Scheme (LGPS). The issues covered in this paper are:

- a. Changes to pensions taxation
- b. Further consultation on “McCloud” (Age discrimination in the LGPS)
- c. Climate reporting – Taskforce on Climate Related Financial Disclosure
- d. Investment pooling
- e. The Economic Activity of Public Bodies (Overseas Matters) Bill
- f. The Pensions Regulator: New general code

2. Cabinet Member Introduction

2.1. Not applicable

3. Recommendations

3.1. The Pensions Committee and Board is recommended to note the Independent Advisors, LGPS Update, June 2023 paper, appended as Appendix 1 to this report.

4. Reason for Decision

4.1. Not applicable.

5. Other options considered

5.1. Not applicable.

6. Background information

- 6.1. The Independent Advisor has prepared a paper for the Pensions Committee and Board (PCB) that provides an update on several developments relating to the LGPS. The paper has been included as Appendix 1 to this report, and this section will provide a summary of the issues covered in the paper.

Changes to Pensions Taxation

- 6.2. As part of the March 2023 Budget Statement, the Chancellor of the Exchequer announced changes to the pensions taxation regime, including an increase in the Annual Allowance from £40,000 to £60,000 and the abolition of the Lifetime Allowance. These changes will exempt almost all members of the LGPS from the pensions taxation regime and simplify benefit calculations. Further details of the implications of this announcement are set out on page 1-2 of Appendix 1 to this paper.

Further Consultation on “McCloud” (Age discrimination in the LGPS)

- 6.3. The Pensions Committee and Board has previously received advice regarding the outcome of the McCloud case, an age discrimination court case involving the transitional protection arrangements introduced as part of the 2014 reforms of the LGPS.
- 6.4. The “McCloud” remedy is being implemented through draft regulations, which will come into effect on 1 October 2023, and LGPS pension funds will be required to review all qualifying members’ pensions to determine any effects on individuals. Page 2 of Appendix 1 to this paper includes the latest update regarding the most recent Government Consultation to introduce draft regulations which would implement the “McCloud” remedy.

Climate Reporting – Taskforce on Climate Related Financial Disclosure

- 6.5. The UK government issued a Consultation on Climate Reporting on 1 September 2022, ahead of the introduction of mandatory reporting requirements related to the governance or disclosure of climate-related financial risks for LGPS funds. The introduction of these mandatory reporting requirements has been delayed until at least April 2024. This is despite mandatory reporting requirements having been introduced for private sector defined benefit pension schemes with over £1bn assets since October 2022.
- 6.6. The disclosure of climate-related financial risks is considered to be helpful in supporting a transition to a net zero economy and encouraging carbon reduction. This delay is therefore likely to hinder any progress currently being made. Further details of the implications of the delay in the issuance of these disclosure requirements are set out on page 3 of Appendix 1 to this paper.

Investment Pooling

- 6.7. The UK government was widely expected to consult on new guidance to the Local Government Pension Scheme (LGPS) in England and Wales on asset pooling in early 2023. The consultation was expected to propose that LGPS funds transfer all listed assets into their pools by March 2025, and possibly include provisions for

moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale.

- 6.8. At the time of writing, this consultation had not yet been issued making any new investment pooling regime unlikely to be finalised before 2024. Further details of the implications of the expected investment pooling arrangements are set out on page 3-4 of Appendix 1 to this paper.

The Economic Activity of Public Bodies (Overseas Matters) Bill

- 6.9. In June 2023, the UK government introduced the “Economic Activity of Public Bodies (Overseas Matters) Bill, a new piece of legislation which is intended to apply to boycotts and disinvestments targeted at foreign countries. The Bill is not intended to address boycotts and disinvestments for other reasons, such as divestment from fossil fuels companies.
- 6.10. In a letter to all Local Authority Leaders and Chief Executives, the government stated that the Bill would not interfere with the ability of LGPS pension funds to make investment decisions based on financial or non-financial concerns, as long as it does not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision. Further details of the implication of this new proposed bill are set out on page 4-5 of Appendix 1 to this paper.

The Pensions Regulator: New General Code

- 6.11. Since April 2015, the Pensions Regulator (tPR) has had an oversight role in the Administration of Benefits and Governance of public service pensions schemes, including the LGPS.
- 6.12. TPR issued Code of Practice No 14 “Governance and Administration of Public Service Pension Schemes” in 2015, and since 2021 has been working towards issuing a new General Code to consolidate several existing Codes of Practice. Although not all of the new General Code will be applicable to the LGPS, its introduction will require all LGPS funds to assess, implement, and demonstrate compliance with the applicable parts of the new Code. The finalised version of the new general code is expected to be issued later this year. Further details on this new General Code are set out on page 5 of Appendix 1 to this paper.

7. Contribution to Strategic Outcomes

- 7.1. Not applicable

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities) Finance and Procurement

- 8.1. There are no immediate financial implications arising from this report.

Head of Legal and Governance (Monitoring Officer)

- 8.2. The Head of Legal and Governance has been consulted on the content of this report. There will be legal implications for the Pensions with regards to the matters referred to in the updates. Further advice will be provided in particular in respect

of legislation relating to the McCloud remedy and the Economic Activity of Public Bodies (Overseas Matters) when these are passed and come into force.

Equalities

8.3. Not applicable.

9. Use of Appendices

9.1. Appendix 1: Independent Advisor's LGPS Update

Local Government (Access to Information) Act 1985

9.2. Not applicable.