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Haringey Pension Fund

LGPS Update

A paper by the Independent Advisor March 2025

Introduction

This paper informs and updates the Pensions Committee and Board in respect of a number of important issues relating to the LGPS at a **national level**. The issues covered in this paper are:

1. The LGPS Consultation “***Fit for the future***” and LGPS Pools.
2. LGPS Accounts and Audit.
3. Funding Strategy Statement – Updated Guidance.
4. Letter from Scheme Advisory Board (SAB) to Chief Financial Officers and Pension Committee Chairs.

It is hoped this paper will be informative to Members and will contribute to their knowledge and understanding of the LGPS.

1. The LGPS Consultation “***Fit for the future***” and LGPS Pools

On 14 November 2024, the Government issued a major Consultation on the future of the LGPS “***Fit for the future***” This Consultation closed on 16 January 2025 and a response is awaited from the Government.

As the Pensions Committee and Board is aware while the Consultation proposed a major compulsory shift of investment function from LGPS Funds to the Pools with the LGPS Funds also having little genuine ability to scrutinise the Pools, it also indicated an intention by Government to much more closely oversee, monitor and scrutinise the Pools going forward. The Consultation also clearly encouraged a reduction in the number of Pools from the existing eight to a lower number. Paragraph 46 included the statement “*The government encourages pool mergers and sharing of services where this provides a more efficient route to the required standard. As part of their proposal, each pool will be expected to demonstrate why a merger with another pool, or use of existing capability in an established pool company, would not be a more cost effective or otherwise more preferable approach to achieving compliance with the reform proposals...*”

The Consultation (Paragraph 57) required each of the existing Pools “to demonstrate a clear path to meeting the requirements outlined in this consultation document. In these reports pools will be expected to provide clear evidence that they are able to capture the advantages of managing investments at very large scale, such as by being able to invest cost effectively or directly, and at scale, in alternative asset classes such as unlisted infrastructure and private equity” and stated “We will expect proposals to be submitted by 1 March 2025...”

It is understood that notwithstanding both the encouragement to merger and the extensive and challenging role that Government has proposed for Pools going forward all eight existing Pools have submitted proposals in which they each propose that they should continue going forward. In line with the Consultation (see Paragraph 42) that all Pools should be FCA authorised the three which are not presently FCA authorised (ACCESS, Northern LGPS, and Wales Pension Partnership) have all indicated that they will seek authorisation.

The desire of all eight existing Pools to continue would appear contrary to the Government’s desire and will therefore complicate the Government’s aim of reforming the LGPS Pooling arrangements going forward. Based on a letter sent to Pools in December 2024 by Jim McMahon MP the Local Government Minister and the Treasury Minister Emma Reynolds MP Ministers will now review each proposal and may request further information and discussions. This indicates a potential delay in deciding the new Pooling arrangements but not necessarily any change to either the Pooling regime suggested in the Consultation or the Government’s view that the number of Pools should be reduced in the short term. If there are Pool mergers it would seem most likely they will include at least one of the three existing Pools which are not, yet FCA authorised.

2. LGPS Accounts and Audit

As was stated in the LGPS Update to the 30 September 2024 meeting of the Pensions Committee and Board at present, in England, the Pension Fund Accounts form part of the overall Accounts of the Administering Authority. Due to delays in the External Audit of the wider Local Authority Accounts this is impacting and consequently seriously delaying the approval of Pension Fund Accounts across England.

The September 2024 LGPS Update informed the Board that the Scheme Advisory Board (SAB) had been requesting, since August 2022, that the Government separate the Pension Fund Accounts in England from the Administering Authorities’ own Accounts, as is already the case for the LGPS in Scotland and Wales. Although on 15 February 2023 the Minister then responsible for the LGPS sent a response to the SAB which indicated that the Government was actively considering the SAB recommendation to completely separate the Pension Fund Annual Accounts of English LGPS Funds no announcement regarding the separation of Pension Fund Accounts from those of their Administering Authority had been made by the time that the General Election was called on 22 May 2024.

On 16 December 2024, however, the new Government issued a Consultation which specifically proposed the potential separation of the Pension Fund Accounts from the main Accounts of the Administering Authority. This Consultation “**Local audit reform: a strategy for overhauling the local audit system in England**” which closed on 29 January 2025 included at Paragraph 77 the statement that “*The government will consider... decoupling the pension fund accounts from the main accounts and publishing them separately and subject to a separate audit certificate...*”

On 27 January 2025, the SAB sent a response to the above Consultation in which it stated “*The Board would strongly encourage the Government to propose legislation that would separate pension fund accounts from administering authority main accounts...*” The SAB response also included reasons why such separation is desirable including:

- “*The problems with local audit have had an impact on the timely publication of finalised audited pension fund accounts... In Wales, all 2023/24 pension fund accounts had been audited and annual reports issued in line with the statutory deadline. For England it was just 12%. Separation of accounts in Scotland and Wales has also been credited as assisting public engagement with local government accounts by removing a complex, specialist area from the main document.*”
- The non separation of LGPS Accounts from the Administering Authority main Accounts in England “*... has also meant delays in completing the audit of the accounts of employers which participate in the Local Government Pension Scheme (LGPS). There are over 18,000 separate employers in the scheme, for example academy schools and further education corporations which are not directly affected by the local audit problems but who need to include information on their pension liabilities and assets in their accounts. The size of the pension liabilities and assets can be material and so a failure to complete the pension fund’s audit creates problems for the scheme employer’s auditor in gaining assurance on them...*”

Given the inclusion of a specific reference in the Consultation (Paragraph 77) and the continued efforts of SAB it is to be hoped that the Government will now proceed to separate the LGPS Accounts from those of the Administering Authority main Accounts in England as soon as is practical. In a letter of 12 November 2024 to Jim McMahon MP the Local Government Minister the (then) SAB Board Secretary, Joanne Donnelly, suggested that the Kings Speech (of July 2024) provided a number of possible means of introducing this reform “*... for example, the draft Audit Reform and Corporate Governance Bill, the Pension Schemes Bill or indeed the Devolution Bill.*”

3. Funding Strategy Statement – Updated Guidance

Regulation 58 of the Local Government Pension Scheme Regulations 2013 (As amended) requires that each Administering Authority (LGPS Fund) *“must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.”* Each LGPS Fund must have regard to approved Guidance when preparing, maintaining, and reviewing its Funding Strategy Statement (FSS).

In summary the purpose of the FSS is to

- Establish a clear and transparent fund-specific strategy that will identify how Employers’ Pension Liabilities will be met going forward.
- Support the desirability of maintaining as constant and stable Primary Contribution Rate as possible, as defined in Regulation 62(5) of the LGPS (England and Wales) Regulations 2013 and Regulation 60 of the LGPS (Scotland) Regulations 2018.
- Apply the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the Fund.
- Explain how the Fund balances the interests of different Employers.
- Explain how the Fund deals with Conflicts of Interest (see particularly Paragraph 57), and reference links to other policies/strategies including the Investment Strategy Statement and Pension Administration Strategy.

The (now abolished) CIPFA Pensions Panel was formerly responsible for issuing Guidance on the preparation, maintenance, and review of the FSS. The most recent CIPFA Guidance **“Preparing and Maintaining a Funding Strategy Statement in the LGPS”** was issued in 2016.

The Scheme Advisory Board (SAB) Compliance and Reporting Committee has been working, since Autumn 2022, to produce updated FSS Guidance which has also been reviewed and jointly approved by CIPFA and the Ministry of Housing, Communities and Local Government (MHCLG). The detailed work on the revised Guidance has been coordinated by the SAB Compliance and Reporting Committee Funding Strategy Statement Working Group which consisted of Fund Practitioners, Fund Actuaries, the Government Actuary’s Department (GAD), Scheme Employers, LGPS legal advisors, Scheme Member representatives and the Scottish Scheme Advisory Board. The Working Group used the previous CIPFA (2016) Guidance as a template. As stated in the report **“Funding Strategy Statement guidance”** ITEM 6 PAPER C, to the SAB Compliance and Reporting Committee, 21 October 2024 *“A priority in the development of the new guidance was also that the ultimate FSS document published by a fund should be better understood by its primary readership of scheme employers.”*

In January 2025 new “**Guidance for Preparing and maintaining a Funding Strategy Statement (FSS)**” was issued. This Guidance (which consists of 34 pages) may be accessed at [FSS guidance Final January 2025.pdf](#) The new Guidance seeks to assist Administering Authorities (LGPS Funds) in formulating their own FSS, covering all the necessary areas but without prescription in the actual policy approach taken. The new Guidance introduces or improves/updates the coverage of a range of issues including:

- Roles and Responsibilities of Key parties – In this context the 2016 Guidance focussed on the Administering Authority (the Fund), the individual Employer, and the Fund Actuary. The 2025 Guidance additionally focusses on Local Pension Boards, and Employer Guarantors.
- Engagement with Employers and other key stakeholders - The 2025 Guidance provides clearly more detail and examples on how Administering Authorities should engage in meaningful dialogue with stakeholders than the 2016 Guidance. For example, the 2025 Guidance includes a new statement that “*When revisions are made to the FSS, an engagement plan should be created on how the fund plans to engage in meaningful dialogue and engage with employers and other parties as appropriate, such as their guarantors.*” In relation to “*consultation principles*” the 2025 Guidance includes “*Consultations should be clear and concise, using plain English and avoiding acronyms, where possible. It should be clear what the consultation is asking for views on and the areas which are predetermined.*”
- Funding deficits and surpluses - When the 2016 Guidance was issued the most recent completed LGPS Triennial Valuation was the 2013 Valuation. At that Valuation only one LGPS Fund (Teesside at 101%) had a Funding level of 100% or more. By the 2022 Valuation 61 of the then 86 open LGPS Funds in England and Wales had a Funding level of 100% or above. Therefore, it is not surprising that unlike the 2025 Guidance the previous Guidance did not contain a specific section on the “*Fund approach to managing surpluses and deficits.*” The 2025 Guidance includes seven paragraphs on this issue including (at Paragraph 66) that “*The FSS should explain the fund’s particular response to being in deficit or surplus and recognise that this may differ for groups of employers within a single fund (according to employer type and circumstances). For example, the FSS should explain the approach to setting contributions rates for certain groups of employers in surplus or deficit...*”
- Risk Management – The 2025 Guidance expands on the risks most likely to impact the Funding Strategy. While the 2016 Guidance focussed on Investment, Employer, Liquidity/maturity, Liability, Regulatory and Compliance risks the 2025 Guidance (at Paragraph 43) also includes specific reference to Long Term Employer Covenant (which is covered in more detail at Paragraphs 72 and 73 of the Guidance) and Climate risk in regard to which Paragraph 43 includes the statement that “*It is expected*

that funds will have recognised and considered the funding issues associated with climate change as a material systemic risk and means that funds will need to keep the management and governance of climate risk under review. Funds should set out in the FSS their current approach to assessing the potential impact of climate risk on the funding strategy and outlook. Specifically, the FSS should be clear on the approach to assessing the potential impact of climate risk, how this is used in decision making, risk management and links with other management strategies.”

- Preparing for Exit and events which may trigger Termination – There was not a specific section on this in the 2016 Guidance but there is in the 2025 Guidance. A major change to the regulatory framework since the 2016 Guidance was issued is that since 2018 the LGPS Regulations have permitted exiting Employers to receive an exit credit which was not previously allowed.
- Deferred Debt Agreements or Debt Spreading Arrangements – The 2025 Guidance, unlike the 2016 Guidance covers these issues as they were only permitted following an amendment to the LGPS Regulations in 2020.

With regard to the issue of Climate Change in the context of the FSS the 2025 Guidance (at Paragraph 43) also states *“When considering funding issues related to climate change, funds should also have regard to the key principles document for preparing climate scenario analysis, which has been drafted by the actuarial firms who act as fund actuary for the LGPS funds and approved by GAD, MHCLG and SAB...”* This “key principles document” was updated in December 2024 and published by SAB in January 2025. It may be accessed at [Climate Risk Reporting Principles January 2025 final.pdf](#)

To assist Funds in preparing their FSS a **Funding Strategy Statement (FSS) Checklist** is provided as **Annex C** to the Guidance. This is “...a short, high-level summary of the themes covered in this guidance...” A helpful **Glossary** is provided at the end of the Guidance as **Annex D**.

4. Letter from SAB to Chief Financial Officers & Pension Committee Chairs.

On 27 January 2025, the Chair of the Scheme Advisory Board (SAB), Councillor Roger Phillips, issued a letter, “**Local Government Pension Scheme (LGPS) administering authority budget** ” to all Chief Finance Officers and Pension Committee Chairs at LGPS Administering Authorities in England and Wales. This letter contains extremely important and relevant information, and encouragement in relation to the resourcing of individual LGPS Funds.

The Chair of SAB’s letter included that:

- “Regulation 4(5) of the LGPS Investment Regulations 2016 says that the costs for the administration and governance of the LGPS should be met from the pension fund maintained by the administering authority, and not from that authority’s general fund.”

- *“The acknowledged pressures on council service delivery more generally should not influence the approach taken with regard to setting the budget for pensions administration and governance. The Board is aware that cost constraints on the administering authority are sometimes applied to the pension fund, even when the fund has a legally separate source of funding. It is vital that appropriate resources are in place to ensure service delivery by the pension fund.”*
- *“The Board would also encourage you to take a longer-term approach and determine your pension fund delivery requirements (both resources and budget) for the next few years; with all necessary parties agreeing a plan to ensure the fund can meet the current and future operational challenges effectively.”*

There are other important statements in Councillor Phillips letter which can be accessed at [January 2025 SAB letter to administering authorities on budget setting.pdf](#) . All Members of the Pensions Committee and Board are strongly encouraged to read it in full.

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