

Current issues in the LGPS

June 2023

Recent rises in LGPS funding levels

LGPS funding levels have not escaped the current turbulence we are all experiencing in everyday life. Funding levels have risen significantly over the last 12 months which may be triggering questions from employers and other interested stakeholders. This [60-second summary](#) summarises the current position, the reasons behind the rises and what LGPS funds should do about them.

Welcome news for academy outsourcings!

The Department for Education (DfE) recently released a [policy statement](#) amending how the existing LGPS Academy guarantee applies to the LGPS liabilities for academy outsourcings. The new DfE Academy Trust LGPS Guarantee Policy confirms that the existing academy guarantee will apply to all academy outsourcings which fall into one of three scenarios. This will be particularly welcome news for those outsourcings where staff were being immediately employed beforehand by the local authority. LGPS funds should review whether their admission guides/policies and funding strategy statement need to be updated in light of this change.

Inflation declines, but disappoints

Despite some positivity around a decline in headline UK CPI inflation, April's inflation release made for some pretty ugly reading. As anticipated, headline inflation is falling and is expected to continue to do so. However, ongoing pressures on core inflation mean there is far more uncertainty around how fast inflation will fall and where it will settle. In this [briefing note](#), we look at recent upside inflation surprises and their impact on interest expectations and gilt yields.

Latest InflationWatch

And on the same topic, our [latest quarterly InflationWatch](#) examines what various market indicators are telling us about the path of future inflation. Whilst we believe that inflation will fall rapidly over the next two years, resilience in economic growth and labour markets suggest that there's significant uncertainty around the extent of the potential fall in inflation and where it will settle.

US debt ceiling resolved (in the meantime!)

As US debt levels reached the ceiling of \$31.4trn, a potential default by the US on its government debt became an increasing concern. The ongoing political impasse between Democrats and Republicans increased market volatility, particularly in the globally significant short-term US Treasury bond market. Thankfully, a deal to suspend the debt ceiling was finally signed on 3 June, just two days before the US Treasury would have been unable to pay all its bills. However, the politics and challenges associated with the debt ceiling haven't disappeared – the deal that was reached this year only kicks the issue into the 'short grass'. This [60-second summary](#), prepared ahead of the 11th hour deal, considers the potential scope for a technical US debt default, the options available to the US Treasury and Federal Reserve, and the potential economic and market impact.

Data submission for Scottish 2023 valuations

The latest webinar in our Scottish LGPS 2023 Valuation series was broadcast earlier this month. Our actuarial experts discussed the latest developments to the Data Portal, and what funds should focus on when it comes to cleansing and submitting data for the valuation. Don't worry if you missed it live, you can catch the webinar on-demand, [here](#).

Funding and risk monitoring – what's all the fuss?

Monitoring risks between valuations is nothing new, but the number of recent extreme events has really shone a spotlight on the issue. On top of that, the LGPS landscape continues to evolve with increasing diversity of employers, funding levels, strategies, and new regulations. Finally, add into the mix high inflation and market volatility, and suddenly you have the perfect storm. You can read our [publication](#) or watch our recent [webinar](#) on-demand to find out exactly what all the fuss is about and how funds can better manage these risks.

Accounting disclosures – update on March 2022 restatements

As highlighted in a prior Current Issues article, the majority of 2021/22 local authority accounts had not been signed off when the 2022 triennial funding valuation results became available. Many employers/auditors subsequently requested restated 2021/22 IAS19 figures to assess the impact of the newly available triennial funding valuation data/assumptions. Employers were then to decide which set of 2021/22 figures to use for their final disclosures. A major update to this issue has just been released (via the LGG Scheme Advisory Board [here](#)) with CIPFA and the NAO of the view that, unless the results of the triennial funding valuation show material events not allowed for in the 2021/22 IAS19 figures (e.g. large restructuring or redundancy exercises), no restatement is required. However, we expect each employer will still have to make a decision about restatement in conjunction with their own auditor.

Responsible Investment – ambition, action and accountability

Our latest [quarterly update](#) explores the importance of developing a climate transition plan in line with the three guiding principles above of the Transition Plan Taskforce. The update covers other areas such as the rise in shareholder resolutions filed by advocacy groups, and biodiversity, which is a growing focus for policy makers ahead of the publication of the TNFD framework later in 2023.

Events, webinars & training

Setting your Funding Strategy at the Scottish 2023 valuations

Every effective long-term funding strategy has one thing in common – alignment between contribution plans, investment strategy and employer covenant. The valuation is a time to review each of these areas to ensure they're aligned. Julie West will be joined by Steven Scott and Julie Baillie for a discussion on funding strategy and how to effectively manage risks of LGPS funding. You can register [here](#).

Managing risk in the LGPS - a spotlight on holistic risk management

The second webinar in our risk management series is taking place on 22 June. Andrew McKerns will be joined by Susan Black and Neil Mason, from Surrey County Council, to discuss holistic risk management and how good risk management can make life easier and help with decision-making. Register to join us [here](#).

PLSA Local Authority Conference 26-28 June

We're delighted to be once again supporting the PLSA Local Authority Conference in Gloucestershire on 26-28 June. The agenda is filled with lots of interesting topics and has a great line-up of speakers, including our very own Catherine McFadyen. Catherine will be joined by Richard McIndoe from Strathclyde Pension Fund for a discussion on A New Funding Era. [Click here for more info and to register](#).

LGPS Online Learning Academy (LOLA) – transitions and interviews

This past month has seen many LGPS funds start to transition to our new 8 module LOLA 2.0 platform. Benefiting from the new features of our platform, these funds are integrating the use of LOLA with their wider training plan. We recently conducted video interviews with two LGPS Officers from different funds on how they utilise this platform and why this has aided their core training requirements. Our first interview, with Ian Howe from Leicestershire Pension Fund, is available [here](#). The second interview, with Jo Stone from South Yorkshire Pension Authority, will be available shortly. Much of this will also be discussed at our [upcoming 'training success' webinar](#). Summer training is in session!

In brief...

- **Changes to actuarial standards** – the FRC is [consulting](#) over proposed revisions to Technical Actuarial Standard (TAS300). The consultation includes requirements for providing advice on setting actuarial factors and for bulk transfer exercise and closes on 4 August.
- **Cost control mechanisms** – a few recent developments:
 - New [amending regulations](#) for the LGPS England & Wales SAB mechanism, effective from 1 June 2023, enable the switch to a four-yearly regime, and remove the 2% margin from both sides of the overall LGPS target cost (which had previously triggered the English and Welsh SAB to make mandatory recommendations under its own mechanism to bring cost back to target). In future, the SAB will have more leeway around its recommendations, with the brief being to bring costs '*back to or towards*' the targets.
 - HMT has issued a [policy statement](#) about how the cost control mechanisms for public sector schemes (including the LGPS) will operate from the 2020 valuations onwards. Treasury Directions will set out the technical details 'in due course'.
 - DLUHC issued its [response](#) to a prior consultation confirming that it proposed amendments to the LGPS 2013 Regulations will proceed. The amendments align the frequency of the HMT and SAB mechanisms to 4 yearly, remove the requirement for SAB recommendations to bring the scheme back to target cost (see prior bullet above) and technical changes to introduce the new 'economic check' to the HMT mechanism.
- **State Pension Age** – Mel Stride, the Secretary of State for Work and Pensions, announced that the SPA will not be raised to 68 until between 2041 and 2043. This is four years later than the period proposed by the SPA review in 2017. He also said that the next review will be undertaken within two years of the next Parliament.
- **ESG** – a recent [blog](#) from TPR describes its two-stage ESG regulatory initiative.
- **Investment in the UK** – is compulsion coming? The current Government's levelling-up agenda involves an ambition for funds to invest more in UK infrastructure and other local projects. On top of this, a recent FT interview with Shadow Chancellor Rachel Reeves suggests that the Labour party would be prepared to force funds to invest in a 'future growth fund' if they win the next election. The PLSA has also released a [paper](#) called '*Pensions and Growth*', identifying a dozen ways to make UK assets more appealing to pension funds. And interestingly, at the PLSA's investment conference, the Treasury's Andrew Griffith did not rule out changes to fiduciary duty to encourage pension investment in UK growth.
- **Pensions Equity Group** – last month saw the launch of PEG, a new coalition of leading pension companies and organisations (including Hymans!). It aims to tackle pension inequalities in the UK, in recognition that many in our society are not saving enough for retirement.
- **McCloud** – DLUHC has launched a [consultation](#) on another set of draft 'McCloud' LGPS regulations, covering a number of technical areas e.g. the impact on aggregations or Club transfers. It closes on 30

June. And, in related news, the Court of Appeal has granted permission to the Unions to appeal against the recent High Court ruling (which dismissed the request for a judicial review over the Government's proposed method of paying for McCloud costs via the cost control mechanism).

- **Transfer advice** – the DWP has completed a [post-implementation review](#) of the legal requirement that members obtain 'appropriate independent advice' before undertaking DB-to-DCF transfers.
- **New actuarial factors** – following the recent change in the SCAPE rate, GAD (via LGA) has released new factors to LGPS funds covering CETVs, pension cash equivalents, pensions credits and pension credits (ill health). They're effective from 1 June 2023.



Appendix

Recent rises in LGPS funding levels

<https://www.hymans.co.uk/insights/research-and-publications/publication/60-second-summary-rising-lgps-funding-levels/>

Welcome news for academy outsourcings

<https://www.gov.uk/government/publications/academies-and-local-government-pension-scheme-liabilities/dfe-local-government-pension-scheme-guarantee-for-academy-trusts-pensions-policy-for-outsourcing-arrangements>

Inflation, declines and disappoints

<https://www.hymans.co.uk/insights/research-and-publications/publication/briefing-note-headline-inflation-falls-but-its-decline-disappoints/>

Latest InflationWatch

https://www.hymans.co.uk/media/uploads/InflationWatch_May_2023.pdf

Us debt ceiling resolved (in the meantime!)

<https://www.hymans.co.uk/insights/research-and-publications/publication/60-second-summary-us-debt-ceiling-debacle-scope-for-heightened-yield-volatility-and-worse/>

Data submission for Scottish LGPS 2023 Valuation

<https://event.on24.com/wcc/r/4199215/5777A66E823B273563C7D7FCA20273A2>

Funding and risk monitoring – what’s all the fuss?

https://www.hymans.co.uk/media/uploads/Managing_risk_in_the_LGPS_-_a_spotlight_on_funding_risk_monitoring.pdf

<https://event.on24.com/wcc/r/4219377/7E447025BCA7ACE65C82C1D7B8F7346E>

Accounting disclosures – update on March 2022 restatements

<https://lgpsboard.org/index.php/welcome>

Responsible Investment – ambition, action and accountability

https://www.hymans.co.uk/media/uploads/F230526_RI_NewsViews_Q2_2023_2.pdf

Events, webinars & training

<https://event.on24.com/wcc/r/4242202/4CDF9CF09724C2A5E1F0C67F7525813D>

Managing risk in the LGPS - a spotlight on holistic risk management

<https://event.on24.com/wcc/r/4247598/8BF4C95C8B994DE7411CCFD96FD14E7D>

PLSA Local Authority Conference 26-28 June

<https://www.plsa.co.uk/Events/Conferences/Local-Authority-Conference>

LGPS Online Learning Academy (LOLA) – transitions and interviews

<https://vimeo.com/833390841/790fede96a?share=copy>

<https://event.on24.com/wcc/r/4241878/FAC89482910DCEBC7025BAE2321F3E28>

In brief...

<https://www.frc.org.uk/getattachment/ec116847-9b1c-4090-9a0f-2a86cfcc9587/attachment;.aspx>

<https://www.legislation.gov.uk/ukxi/2023/522/made>

<https://www.gov.uk/government/publications/public-service-pensions-cost-control-mechanism-and-the-reformed-scheme-only-design/public-service-pensions-cost-control-mechanism-and-the-reformed-scheme-only-design>

<https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-scheme-advisory-board-cost-management-process/outcome/changes-to-the-scheme-advisory-board-cost-management-process-government-response>

<https://blog.thepensionsregulator.gov.uk/2023/05/17/the-esg-elephant-is-now-in-the-room/>

<https://www.gov.uk/government/consultations/mccloud-remedy-in-the-lgps-supplementary-issues-and-scheme-regulations>

https://www.legislation.gov.uk/ukxi/2015/742/pdfs/ukxi0d_20150742_en.pdf