

Current issues in the LGPS

April 2022

It's finally here!

For those in England and Wales, the 2022 valuation year is finally here and the countdown begins. To note (celebrate might be too strong!) the occasion, we've set out the exciting [new developments](#) we'll be using in 2022 to help make the valuations easier and more informative for your stakeholders. For those in Scotland, this gives you a sneak peek of what you can expect in 2023.

McCloud - as DLUHC would have it

Department for Levelling Up, Housing and Communities (DLUHC) has written to all English and Welsh LGPS funds to set out its recommended approach for how the McCloud remedy should be allowed for in the 2022 valuations. This came as no surprise – happily, the approach is similar to that recommended for the 2020 Scottish valuations, so we are well-prepared and will incorporate the remedy into all employers' liabilities and contributions at the valuation. We expect that the funding impact will be very small in most cases, but we'll be able to analyse it at employer level and highlight any cases where it's significant. Please get in touch with your fund actuary if you have particular questions or want to see the impact broken down in a particular way.

Academy numbers set to rise

As part of its Levelling Up agenda, the Government has issued a [white paper](#) on education in England which confirms plans to permit councils to establish their own Multi Academy Trusts (MATs). The remaining 12,000 local authority schools will need to convert to academy status by 2030, transferring up to 280k support staff to a new LGPS employer and significantly affecting council payrolls and membership. The timetable needs an average of 1,500 schools to convert every year, a huge increase from only 850 annually over the last decade or so. New expectations for MAT sizes suggest quite a few changes of trust for existing academies too alongside thousands of academy conversions.

Update on market impact of Ukraine conflict

After initial market panic and severe volatility, the direct impact of the conflict on global markets has been largely realised by investors and is currently limited. Prior to the invasion, Russia and Ukraine made up a surprisingly small share of Emerging Markets indices, given the countries' importance to the global economy, and a minimal share of equivalent global indices. This is fortunate, given the difficulty of investors selling any Russian holdings, as discussed [here](#). This hasn't prevented pressure being applied to the LGPS to consider their Russian holdings by [Michael Gove](#) and [TPR](#).

Markets are still, however, digesting the indirect impacts of the invasion which include:

- For companies with significant business interests in Russia, a loss of earnings and asset values.
- Higher yields for Emerging Markets assets, reflecting the perceived increase in risk, particularly for countries that are major importers of energy and food and those most vulnerable to geopolitical risk.
- Commodity price inflation, as Russia and Ukraine are major exporters of oil & gas, wheat and certain industrial metals.

This final point has been troubling investors in particular, as increased prices are expected to slow economic growth and, in some cases, lead to recessions. All eyes are now on the continued impact on global supply chains and Central Banks' responses.

Phew, prepaying contributions is legal!

James Gouldie QC has issued an opinion (full details [here](#)) that there is no legal barrier to employers prepaying contributions in advance. However, he clearly caveats that any actions should be taken on the basis of 'reasonableness, proportionality and prudence'. Prepayment of employer contributions (usually in relation to Secondary rates only) has become increasingly popular at recent valuations; employers value both the additional payment flexibility and the cash discount available for early payment. We suggest that funds considering this option at the 2022 valuation think carefully about how they apply this in practice, and incorporate a policy into their Funding Strategy Statement. Your fund actuary is on hand to help out!

A 'diverse' approach to RI

A robust set of RI investment beliefs and policies is integral to investment decision making. Our latest [Investment DB podcast](#) explores the concept of 'Diversity of Thought' as an engagement theme. Joined by Helen Price, Head of Stewardship at the Brunel Pensions Partnership, we discuss the importance of diversity and what actions pension funds could consider taking in respect of it. Our Q1 2022 [RI News and Views](#) has also been published; have a read to learn more about getting to Net-Zero, TCFD and making better stewards – the world of RI never disappoints!

The race to net-zero

Net-zero discussions are now a consistent feature at LGPS Committees with a number of funds having already set an aspirational target date. However, what is less consistent is the choice of date itself. Targets range from the UK Government aligned 2050 right down to the shorter time horizon of 2030, as outlined in this recent [LGC article](#). The article also highlights the range of views across the LGPS in terms of what setting a target means and how it can be achieved. Unsurprisingly, this raises the role of the LGPS Pools in England and Wales as a key partner in all of this.

A slow dash towards Dashboards?

The recent [DWP consultation](#) on the introduction of Pensions Dashboards ended on 13 March. The proposals, as currently drafted, provide some challenges to LGPS funds. In particular, the need to implement McCloud is likely to make meeting the proposed April 2024 connection deadline difficult. The Dashboard requirements also have a number of practical issues including the 'value data' required, which will require system upgrades, and general time limits to be observed. Funds will also need to consider their own processes, for example, engaging with employers and processing historic unresolved leavers ahead of connecting to the Dashboards.

Identifying any gaps in your (good) governance

With the next stages of the E&W SAB's Good Governance review moving rapidly up DLUHC's to-do list, a consultation on updated regulations and guidance is expected in the coming months. In preparation for these requirements, we can complete a desktop review of your current governance arrangements set against these soon-to-be-new arrangements. With minimal Officer input required, we can provide you with both an overall governance 'star' rating and our 'star' rating for the nine areas assessed. Please register your interest [here](#) and we will get in touch with you to discuss.

LGC Investment Seminar

The 17th LGC Investment Seminar took place in Carden Park, Cheshire, on 24-25 March. Hot topics such as ESG, the 2022 valuations, inflation and Levelling Up were subject to lively discussion and debate. We've summarised each of the sessions in our [conference highlights](#). And in case you missed Catherine McFadyen's funding level presentation, you can [read our summary blog here](#).

In brief....

- Spring Statement - there was little of note for the LGPS in the Chancellor's statement. For public sector pensions in general, it was highlighted that the estimated cost of rectifying for the Goodwin discrimination case would reach £425m by 2026/27. The statement also confirmed the Government's commitment to reinstate the full 'triple lock' on the State pension next year.
- On 10 March, the [Public Service Pensions and Judicial Offices Act 2022](#) received Royal Assent. The main purpose of the Act is to provide the primary legislation required to address the discrimination inherent in the reformed public service schemes which was identified by McCloud. A late introduction to the Act, section 100 enables the Government to issue guidance or directions about investment decisions that are at odds with '*UK foreign and defence policy*'.

Appendix

It's finally here

<https://www.hymans.co.uk/insights/blogs/blog/the-2022-valuations-upon-us-at-last/>

Academy numbers set to rise

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063601/Opportunity_for_all_strong_schools_with_great_teachers_for_your_child_web_accessible.pdf

Update on market impact of Ukraine conflict

<https://www.publicfinance.co.uk/opinion/2022/03/ethical-divestment-lgps>

https://www.lgpsboard.org/images/PDF/BDS/SoS_DLUHC_to_Committee_Chairs9Mar22.pdf

<https://www.thepensionsregulator.gov.uk/en/trustees/russia-ukraine-conflict>

Phew, prepaying contributions is legal!

<https://www.lgpsboard.org/index.php/board-publications/legal-opinions>

A 'diverse' approach to RI

<https://www.hymans.co.uk/insights/podcasts/hymans-robertson-oninvestment-diversity-impact-outcomes-and-actions/>

<https://www.hymans.co.uk/insights/research-and-publications/publication/responsible-investment-news-and-views-march-2022/>

The race to net-zero

https://www.lgcplus.com/investment/revealed-the-council-pension-funds-with-net-zero-target-dates-10-03-2022/?eea=Zm9GbHg0Y0E1VDF0VVZxcjhhL3JVM0svSjYyMHUwTlhDajRIYTF3VkdsZz0%3D&utm_source=acs&utm_medium=email&utm_campaign=CONE_LGC_MAR_WYMHM-220311_A%2FB%20test%20on%20subject&deliveryName=DM35817

A slow dash towards Dashboards?

<https://www.gov.uk/government/consultations/pensions-dashboards-consultation-on-the-draft-pensions-dashboards-regulations-2022>

Identifying any gaps in your (good) governance

<http://web.hymans.co.uk/hymanscouk-atwsv/pages/j0k7fj4eey0aaaisbscsq.html?PageId=14bb4227b89fec11b4000022481b0249>

LGC Investment Seminar

https://www.hymans.co.uk/media/uploads/LGC_Investment_Seminar_-_Carden_Park_-_24-25_March_2022.pdf

<https://www.hymans.co.uk/insights/blogs/blog/the-funding-level-a-healthy-obsession/>

In brief....

<https://www.legislation.gov.uk/ukpga/2022/7/contents/enacted>