

Current issues in the LGPS

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Welcome to our first edition of 2024. As ever, there is plenty going on, including some crystal ball gazing on the year ahead, thoughts about TPR's new General Code and a deep dive on the 'blue economy' (which is nothing to do with politics or football...).

LGPS priorities for 2024

As 2024 and the business planning season get into full swing, we set out some [priorities](#) that funds might focus on this year across funding, investments, administration and governance.

The outlook for LGPS investments

What lies ahead in 2024 for LGPS investments? Whilst significant uncertainty remains in markets, we at least have some clarity of what may happen in the regulatory space, with last year's consultation setting out some of the government's key plans. Our [outlook](#) explores a number of these outcomes, discussing how funds address the main areas of faster pooling and investing in Levelling Up and private equity. In addition, we look to some key market trends for 2024, including higher yields, natural capital and smarter inflation protection.

Cracking the code

The Pensions Regulator's (TPR) widely anticipated General Code of Practice is expected to go live on 27 March. We've produced a [helpful summary](#) that explores the new Code and its impact on the LGPS. We also recently hosted an LGPS specific webinar with TPR's Policy Lead, Nick Gannon, prompting some meaningful discussion on compliance for pension schemes and LGPS funds specifically. If you missed the webinar, or would like to watch again, you can [catch it here on-demand](#). Our team are currently finalising our General Code compliance checker tool for LGPS funds. If you would like any further information on this tool, please [get in touch](#).

SAB surpluses statement

As a festive treat, the Scheme Advisory Board (SAB) in England and Wales issued a statement providing advice to funds about how surpluses across the LGPS can be effectively managed and administered. The statement covers four key areas – stability of contribution rates, tailored employer investment strategies, 'partial terminations' and contribution rate reviews between formal valuations. Our [Briefing Note](#) provides further detail and our thoughts.

Scottish 2023 valuations

With the final quarter of the valuation year upon us, we're finalising employer contribution rates and preparing the formal valuation report – the finishing line is in sight! The Government Actuary's Department, working alongside SPPA, has contacted Fund Actuaries to set out their reporting requirements for Section 13, including their expectations on the disclosure of climate change analysis. Your Hymans actuary will help you meet the requirements and will be in touch shortly with further details.

Climate scenario modelling – the next generation...

Climate risk continues to be a 'hot issue'. Our [webinar](#) in November introduced developments in our climate scenario modelling, and actions that LGPS funds can take in response to this. With climate change being one of the main sources of risk for pension schemes (and particularly for LGPS funds, with their open-ended timescales and investments in return seeking assets), the need for greater understanding is fundamental. Our accompanying [publication](#) gives more detail.

Finance Bill 2023-24

On 25 January HMRC published [Newsletter 155](#), containing an update on the Finance Bill 2023-24 and the abolition of the Lifetime Allowance. Among the matters covered are:

- Confirmation that HMRC are reconsidering how the new Pension Commencement Excess Lump Sum (PCELS) will operate.
- Corrections required to some drafting errors in the original Bill.
- A series of FAQs designed to help practitioners navigate the new arrangements.

We will provide further information on the new tax regime once the Finance Bill passes into law.

Another interesting accounting year ahead for the LGPS?

Accounting surplus positions are likely once again for many employers given general market movements and positive fund investment returns to date. This will lead to extra thought on what to show at the start, during and end of this year's disclosures. In addition, there is a further significant pension increase of 6.7% coming at April 2024, continued increased audit requirements and new funding valuation results for Scottish employers. All signs point to another busy LGPS accounting year for funds, employers, auditors and actuaries alike. Please contact our accounting experts at LGPSCentralACcounting@hymans.co.uk or Craig.Alexander@hymans.co.uk for any accounting assistance.

The meaning of life (expectancy)

There have been some striking recent headlines about falls in life expectancy, based on current life expectancy at birth statistics. Whilst a good indicator of general societal health, it's not the most relevant statistic for retirement planning or pension scheme funding because:

- It incorporates early life mortality – so gives a lower life expectancy than appropriate for someone who has survived to retirement;
- It is based on past data - so doesn't allow for the expectation that life expectancy will improve in the future; and
- It's an average figure - even with a correct estimate, around 50% will be expected to live longer.

It can also be affected by unusual short-term experience, such as Covid-19. [Click here](#) to read more.

The 'blue economy'

The ocean, covering 70% of Earth's surface, is vital for life and climate regulation. The 'blue economy,' valued at \$2.5trn annually, involves activities like renewable energy, shipping, tourism, fishing, and blue technology. However, pollution, overexploitation of marine biodiversity, and climate change threaten the ocean. Read our [executive summary](#) and [article](#) to find out more about ocean preservation and the actions that funds can take to make a positive difference.

Fiduciary duty and climate change

After challenges that pension scheme decision makers incorporating ESG into investment decision making goes against their fiduciary duty, the Financial Markets Law Committee have helpfully [confirmed](#) that climate change considerations can be taken into account. This further supports the approach of the LGPS, with funds taking great care to sensibly consider this important financial risk in their strategies, fully integrating it into their fiduciary duties.

Capital markets update

Despite steep hikes in interest rates, global growth confounded expectations in 2023. Business and consumer confidence is rising, as inflation fears recede, and interest-rate cuts come in to view. Sharp falls in bond yields towards the year end are alleviating concerns over debt affordability, and lending valuation support to stocks. Our latest [capital markets update](#) explores the key themes driving the global economy and the prospects for individual asset classes.

Events, webinars & training

Together, stepping into the future of the LGPS, 16 May 2024

We're excited to announce that we're hosting a LGPS conference on 16 May 2024, at Kimpton Charlotte Square Hotel, Edinburgh. The event, which is for LGPS fund officers only, will have a future focus, underpinned by sharing experience, best practice and actionable outputs. More details on the agenda and speakers will be announced soon.

Managing risk in the LGPS – a spotlight on cyber risk

The latest webinar in our LGPS risk management series is available to [watch on-demand](#). Hear from Susan Black and Alan Johnson as they discuss current cyber risk guidance from the Pensions Regulator, and actions LGPS funds can take in order to better understand and manage cyber risk in accordance with this guidance. The next webinar in our risk management series will focus on managing employer covenant in a surplus environment – keep an eye out for the invitation coming soon.

Conference highlights – LGA LGPS Governance conference, 18-19 January 2024

The 2024 LGA LGPS Governance Conference took place in York on 18 and 19 January and covered a wide range of topics, including Scheme Advisory Board, LGPC and DLUHC updates, the employer landscape, responsible investment, de-risking and cyber security. Read more in our [highlights](#).

In brief...

Cyber risk

TPR's updated [guidance](#) asks funds, advisers and providers to report significant incidents. Our webinar (see above) considered the detail. TPR's also published a [regulatory intervention report](#) about the cyber security incident at Capita.

Paternity leave

The [Statutory Paternity Pay \(Amendment\) Regulations 2024 \(SI 2024 No. 121\)](#) come into force on 8 March 2024. Employees will be able to take the two-week leave entitlement as two, separate one-week periods, at any time in the 52 weeks after birth, and give at least 28 days' notice of intention to take the leave.

Carer's Leave

The Government has laid [draft Carer's Leave Regulations 2024](#) before Parliament (they require approval by each House to become law). They're being produced under the [Carer's Leave Act 2023](#), and would give employees the right to take up to a week's unpaid leave per year to provide or arrange care for a dependant with a long-term care need.

Spring Budget

HMT have announced that this will happen on 6 March.

Dashboards

The NAO is to [investigate](#), this spring, the progress made by the Pensions Dashboards Programme, the reasons for the implementation delays, and the results of the programme 'reset'.

Pension increases/inflation

As expected, the Government has [confirmed](#) that LGPS pensions and CARE pots will increase by 6.7% from April 2024 (based on CPI for the year to September 2023). As an aside, the ONS [announced](#) that CPI for year to December 2023 was 4.0%.

Guaranteed Minimum Pension (GMP) increases

The House of Commons Library has updated its [briefing paper](#) on this subject.

Financing growth

The Labour Party has released its plan for financial services, which mentions the LGPS and pooling.

New GAD guidance (England and Wales)

The [guidance](#) doesn't contain new factors but does provide information about how the McCloud remedy will affect certain LGPS calculations, namely early payment of pensions, late retirements, individual incoming/outgoing transfers, and interfund transfers.

Cost cap

The GAD has published a handy reference [table](#) with links to the 2016 valuation cost cap reports for each of the main public service schemes.

National Insurance Contributions

[Legislation](#) was laid that includes the cut to the rate of primary Class 1 NICs by two percentage points, effective from 6 January 2024.

Appendix

LGPS priorities for 2024

https://www.hymans.co.uk/media/uploads/Key_Priorities_for_the_LGPS_in_2024.pdf

The outlook for LGPS investments

https://www.hymans.co.uk/media/uploads/LGPS_Investment_Outlook_2024.pdf

Cracking the code

<https://www.hymans.co.uk/insights/research-and-publications/publication/60-second-summary-the-long-long-awaited-tpr-general-code-of-practice-has-arrived-so-what/>

<https://event.on24.com/wcc/r/4469234/799DD90866346EA5B5BBF2F86C925C6D>

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SAB surpluses statement

<https://www.hymans.co.uk/insights/research-and-publications/publication/briefing-note-sabs-statement-on-lgps-surpluses/>

Climate scenario modelling – the next generation...

<https://www.hymans.co.uk/insights/webinars/managing-risk-in-the-lgps-a-spotlight-on-climate-risk/>

<https://www.hymans.co.uk/insights/research-and-publications/publication/managing-risk-in-the-lgps-a-spotlight-on-climate-risk/>

Finance Bill 2023-24

<https://www.gov.uk/government/publications/pension-schemes-newsletter-155-january-2024/newsletter-155-january-2024>

Another interesting accounting year ahead for the LGPS?

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The meaning of life (expectancy)

<https://www.clubvita.net/uk/news-and-insights/misleading-headlines-jill-jamieson-helps-unpick-the-meaning-of-life-expectancy-statistics-reported-in-the-media>

The 'blue economy'

https://www.hymans.co.uk/media/uploads/Marine_Biodiversity_-_Executive_Summary.pdf

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

Fiduciary duty and climate change

<https://fmlc.org/wp-content/uploads/2024/02/Paper-Pension-Fund-Trustees-and-Fiduciary-Duties-Decision-making-in-the-context-of-Sustainability-and-the-subject-of-Climate-Change-6-February-2024.pdf>

Capital markets update

<https://www.hymans.co.uk/insights/research-and-publications/publication/capital-markets-update-january-2024/>

Events, webinars & training

<https://event.on24.com/wcc/r/4448238/8773C0A9AA511C292B039DEA4F54FAD3>

https://www.hymans.co.uk/media/uploads/Conference_Highlights_-_LGA_Governance_Conference_18-19_January_2024.pdf

In brief...

<https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/cyber-security-principles#2605e0fdec134fd2a576419cd9388be6>

<https://www.thepensionsregulator.gov.uk/en/document-library/enforcement-activity/regulatory-intervention-reports/capita-cyber-security-incident-regulatory-intervention-report>

<https://www.legislation.gov.uk/ukxi/2024/121/made>

https://www.legislation.gov.uk/ukdsi/2024/9780348254808/pdfs/ukdsi_9780348254808_en.pdf

<https://www.legislation.gov.uk/ukpga/2023/18/enacted>

<https://www.nao.org.uk/work-in-progress/investigation-into-the-pensions-dashboards-programme/>

<https://questions-statements.parliament.uk/written-statements/detail/2024-01-25/hcws211>

<https://www.ons.gov.uk/economy/inflationandpriceindices>

<https://commonslibrary.parliament.uk/research-briefings/sn04956/>

<https://www.lgpsregs.org/schemeregs/actguidance.php>

<https://www.gov.uk/government/publications/public-service-pensions-2016-valuation-cost-cap-reports/public-service-pensions-2016-valuation-cost-cap-reports>

<https://www.legislation.gov.uk/ukpga/2023/57/enacted>

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