

# Current issues in the LGPS

July 2021

## Getting Cost Control under control

The second half of June saw a flurry of cost control related activity. Firstly, the Government Actuary published its [review of the current cost control mechanism](#), containing five recommendations on how it could be altered to better deliver the Government's desired policy intentions. Shortly thereafter, the Government took forward three of the recommendations and launched a [consultation about changing the cost control mechanism](#). The consultation closes on 19 August, and we will share our response by end of July. In the meantime, you can read our [initial thoughts](#) on the review and the consultation. This includes comments on a second Government consultation, about the [SCAPE discount rate methodology](#) that applies to unfunded public sector schemes, and its impact on the LGPS.

## Now I'm 100% funded, will I stay that way?

The [second paper](#) in our three-part series which answers some of the big funding questions that will be asked at the 2022 valuations is now available. This paper considers if the LGPS can consolidate its current strong funding position, and why 2022 offers a good opportunity. Alongside the [paper](#) is a [supporting podcast](#) on the topic, with our Head of LGPS Investments, Philip Pearson.

## Climate change disclosures

There has been a lot of activity in the world of climate change reporting. The DWP recently published final regulations and statutory guidance on mandatory Taskforce on Climate-Related Financial Disclosures ("TCFD") reporting for private sector pension schemes alongside a response to its second consultation – please click [here](#) to learn more. MHCLG intends to publish its own consultation soon, with the requirements for LGPS funds likely to be similar to those of the private sector. In addition, The Pensions Regulator ("TPR") has published a [consultation](#) providing guidance on annual climate change reporting and the penalties associated with breaching the DWP regulations. And finally, the FCA has published [proposals for mandatory TCFD reporting](#) for asset managers, life insurers, FCA-regulated pension providers and are [proposing to extend the application to premium listed commercial companies](#). Our [upcoming webinar](#) on 8 July will help steer you through this regulatory quagmire!

## Exit pay reform is back on the agenda

Hot on the heels of [HM Treasury statutory guidance](#) being issued to the wider public sector in May, MHCLG has now published a [consultation](#) and [covering letter](#) on similar guidance for local authorities in England regarding special severance payments. The consultation runs until 13 August. Once in force, the guidance will set out the criteria to be considered, exceptions and the disclosure and reporting requirements expected from local authorities making such payments.

## And the data says...

The beginning of July has been a busy time for MHCLG; in tandem with the above consultation, it has also published [estimated results](#) of its survey of English local authority exit payments for 2019/20 and 2020/21. Further results are expected in the coming weeks and we will be reviewing all of the data, assessing how it fits into the wider exit payment reform debate.

## TPR reports further governance and administration improvements

TPR recently published the results of its [annual report](#) on the governance and administration practices of public sector pension schemes. Despite the challenges posed by the Covid-19 pandemic the results suggest performance against the elements measured by the Regulator to either be consistent with the previous year or slightly improved. However, some concerns were raised about the effectiveness of business continuity plans when the lockdown commenced. We'll be looking at the broader findings in more detail and will provide any thoughts we have in due course.

## Shifting the UK's tax year

The Office of Tax Simplification (OTS) has published a [document](#) setting out the scope of a high-level review and analysis of the benefits, costs and wider implications of changing the date of the end of the UK tax year for individuals from the current 5 April. Options being considered include 31 March and 31 December. While there would no doubt be significant disruption in making the adjustment to a quarter end, in the longer term it is expected any such simplification should be beneficial for both individuals and organisations. It is expected that the OTS report will be published later this year.

## Exercising discretion over exit credits

We reported last month on a [judgment](#) involving EMS & Amey v Secretary of State for MHCLG, covered in a [blog](#) by Burges Salmon. The consequence of the Court's decision is that all exit credit payments, which have not already been settled, will be dealt with under the 2020 Regulations (even if cessation was triggered between the 2018 & 2020 Regulations). The judgment included clarification over how funds should apply their discretion when settling exit credits; this prompted LGA to write to funds in June and ask them to check their funding strategy statements to ensure that they don't exclude the possibility of paying an exit credit because a pass-through arrangement is in place. Please speak to your Fund Actuary if you have concerns over any existing wording in this area.

## Valuations in the private sector

Although TPR has no authority over LGPS funding, its 2021 annual funding statement on private sector DB schemes (see our [summary](#)) contains some themes that will be of interest to those involved in LGPS valuations. As well as the expected recognition of COVID-19 issues, topics discussed include the effects of Brexit, anticipated changes to the Retail Prices Index, "cherry picking" post-valuation experience, climate change and liquidity risk. Its key theme is perhaps the importance of maintaining a sustained focus on long-term planning and risk management. Roll on 2022!

## Finance Act 2021

Royal Assent to the [Finance Act 2021](#) was given on 10 June, implementing a number of measures announced in March's Budget. This includes provision for the freezing of the lifetime allowance at its 2020/21 level of £1,073,100 until 2025/26. The Act also adapts the tax rules to enable collective money purchase schemes, legislated for by the Pension Schemes Act 2021, to operate as UK-registered pension schemes.

## Inflation: momentary or momentous?

As was anticipated by most economic forecasters, the reopening of the global economy has led to a surge in inflation. Whilst this has hardly been surprising, market consensus is for this to be a transient bump and "normal" inflation levels to resume in 2022. However, the risk to pension schemes of persistently higher-than-expected inflation has increased, as Chris Arcari discusses in our latest [Investment Perspectives](#).

## The latest news from Club Vita

Vita continue to monitor the potential longevity effects of the COVID-19 pandemic. For those of you interested in digging into the latest statistics, [the actuarial profession's latest pandemic monitor](#) considers the data to 18 June 2021, whilst Club Vita's [analysis commissioned by the LGPS Scheme Advisory Board in England and Wales](#) (scroll down at the link) looks at the consequences of longer term pandemic drivers.

Away from the pandemic, we have been busy considering how [longevity inequality](#) and [climate change](#) could impact pensioner life expectancies, and ultimately, pension fund liabilities.

## Appendix

### Getting Cost Control under control

[Cost control mechanism - Government Actuary's review - Final report - GOV.UK \(www.gov.uk\)](#)

[Public service pensions: cost control mechanism consultation - GOV.UK \(www.gov.uk\)](#)

<https://www.hymans.co.uk/insights/research-and-publications/publication/getting-cost-control-under-control>

[SCAPE Discount Rate methodologyFD.pdf \(publishing.service.gov.uk\)](#)

### Now I'm 100% funded, will I stay that way?

[Now I'm 100 percent funded, will I stay that way.pdf \(hymans.co.uk\)](#)

[Will the LGPS remain 100% funded? - Hymans Robertson](#)

### Climate change disclosures

[Government response to consultation on TFCF Regulations for pension schemes - Hymans Robertson](#)

[Climate change governance consultation | The Pensions Regulator](#)

[CP21/17: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers | FCA](#)

[CP21/18: Enhancing climate-related disclosures by standard listed companies | FCA](#)

[Getting ready for TCFD - Hymans Robertson](#)

### Exit pay is reform back on the agenda

[SPECIAL SEVERANCE GUIDANCE v3 FINAL.pdf \(publishing.service.gov.uk\)](#)

[SSPSG.pdf \(lgpsboard.org\)](#)

[SSPSGCL.pdf \(lgpsboard.org\)](#)

### And the data says...

[Local authority exit payments \(first estimates\), England, 2019-20 and 2020-21 - GOV.UK \(www.gov.uk\)](#)

### TPR reports further governance and administration improvements

[Public service governance and administration survey 2020-21 \(thepensionsregulator.gov.uk\)](#)

### Shifting the UK's tax year

[OTS to explore potential for moving the end of the tax year - GOV.UK \(www.gov.uk\)](#)

### Exercising discretion over exit credits

[Enterprise Managed Service Ltd & Anor. R \(On the Application Of\) v Secretary of State for the Ministry of Housing, Communities and Local Government \[2021\] EWHC 1436 \(Admin\) \(27 May 2021\) \(bailii.org\)](#)

[LGPS surplus payment position clarified: helpful new Court guidance, Michael Hayles \(burges-salmon.com\)](#)

### Valuations in the private sector

[Sixty Second Summary - DB annual funding statement 2021 - Hymans Robertson](#)

### Finance Act 2021

[Finance Act 2021 \(legislation.gov.uk\)](#)

**Inflation: momentary or momentous?**

[Inflation - momentary or momentous.pdf \(hymans.co.uk\)](#)

**The latest news from Club Vita**

[Mortality-summary-pandemic-monitor-Week-24-2021-v01 2021-06-29.pdf \(actuaries.org.uk\)](#)

[LGPS Scheme Advisory Board - Funding \(lgpsboard.org\)](#)

[Mega Trend 1: UK longevity inequality will grow | Club Vita](#)

[Mega trend 4: pension funds and insurers include longevity | Club Vita](#)