

# Current issues in the LGPS

May 2022



## War in Ukraine – the wider impacts on the LGPS become clearer

The immediate aftermath of Russia's invasion had most investors racing to understand their exposure to Russian and Belarussian assets. However, the wider impacts on the LGPS and its investments are now becoming clearer and are presenting challenges. Given the generally small exposure to Russian assets, the main financial impact of the war on the LGPS has been the added upward inflationary pressure at a time when it was already climbing to highs not seen for over a decade. This has raised fears in markets of interest rates rising higher and more quickly, contributing to a global economic slowdown and even recessions. The market impacts have included bond yields rising, credit spreads widening and significant volatility in equity markets, as discussed in more detail in our [Spring 2022 Capital Markets Update](#), leading investors back to assessing their wider exposure to the impacts of this invasion.

## 2022 valuations: options, opportunities and objectives

A key action to improve valuation outcomes and experience is engaging early with employers. For those where the balance sheet position is less important and contributions are set over the long-term, there was no need to wait for membership data or 31 March market conditions. Therefore, discussion with councils are well underway for most funds. We recently provided a [short article in Room 151](#) to help senior finance officers consider their options and the best way to engage with the fund and actuary.

## Introducing InflationWatch

Since the pandemic, inflation in many countries, including the UK, has risen further and for longer than most market participants expected. Strong demand, ongoing supply chain constraints and rampant energy and commodity price inflation continue to push prices higher. How high will inflation go and will it persist? Has the era of respectable growth rates and low inflation finally come to an end? Welcome to "[InflationWatch](#)" to help you to assess the outlook for inflation and its implications for your fund.

## The Net Zero challenge

Addressing climate change is one of the greatest challenges facing humanity today. Enormous amounts of capital will be needed to deliver the necessary changes, so it's clear that institutional investors including LGPS funds have a key role to play. Decarbonising portfolios invested widely across different asset types, sectors and countries worldwide will be very challenging. Specific challenges include:

- Dealing with uncertainty
- Coping with imperfect data
- Striking a balance between engagement and divestment
- Capturing the investment opportunities associated with climate change as well as mitigating the risks
- Offsetting residual emissions

Read our [Room151 blog](#) for more.

## Stressed assured – is your funding strategy resilient to climate risk?

Will the contribution rates arising from the 2022 valuation be resilient to climate risks? With LGPS funds increasingly setting net zero targets – see above - on the asset side, our stress testing completes the circle by bringing in the liability side too. Our [short case study](#) explains more about the process and why it's essential for risk management and good governance.

## Some cost cap results...finally

After much delays due to McCloud, the Government Actuary's Department recently published the results of the 2016 cost cap valuations for the [Civil Service](#), [Firefighters'](#), [Welsh Firefighters'](#) and [Police](#) pension schemes. The Civil Service came within the 'corridor' but the others showed material increases in the cost of the scheme. The increases were all attributed to the cost of McCloud rectification – a point which is currently being challenged by various Unions in the courts. However, despite the increases breaching the cost cap corridor, there will be no changes to benefit or member contribution rates because of the one-off McCloud costs. We may expect similar results in the LGPS given the key drivers were at a macro-level and not scheme-specific.

## Academies – they're multiplying...

Following the recent [white paper](#) on education in England, our thoughts turn to the impact on LGPS funds and employers if the proposals go ahead as planned. Our [Sixty Second Summary](#) considers the administrative burden for funds, and the implications for employer contribution rates for Councils and Multi-Academy Trusts. Change on this scale brings funding challenges – we can provide initial analysis and advice to Councils in particular, which may face a significant reduction in their active membership earlier than anticipated.

## LGPS Online Learning Academy – about to enter its 2nd year of study!

And talking of academies.... come June 2022, the LGPS Online Learning Academy will celebrate its 1<sup>st</sup> birthday and enter its 2<sup>nd</sup> year of study! We are delighted that over 30 LGPS funds (with over 800 Committee, Board and Officer users) are participating in the Academy and have benefited from this flexible, fully trackable and recordable training platform. Our [webpage](#) provides the key details of the platform and some of the testimonial we have received over the past year from users. If you are thinking about enrolling your Fund in the Academy, please get in touch with [andrew.mckerns@hymans.co.uk](mailto:andrew.mckerns@hymans.co.uk) to discuss and demo the platform for you.

## Spotlight on infrastructure

Infrastructure is a "natural" asset choice for long-term investors, so it is not surprising that the asset class has attracted institutional capital for many years. The volume of capital deployed has increased over time, but not as quickly as many expected or hoped. Originating suitable assets is likely to remain a challenge, leading some to fear that the capital currently being committed will never be deployed, or that investors will compete too aggressively for assets and drive returns down to unattractive levels. Our briefing note, "[Infrastructure – Future Prospects](#)", provides an update on recent developments and future prospects for infrastructure and considers the continued validity of the investment case.

## Accounting update

March 2022 balance sheets will likely have improved compared to last year as a result of positive fund returns and favourable market conditions for the year end assumptions. Stakeholder interest in pension accounts is higher than ever before and we are being asked by more and more employers to assist with helping explain the figures and year-on-year movements to boards, committees and auditors. Please get in touch with [LGPSCentralAccounting@hymans.co.uk](mailto:LGPSCentralAccounting@hymans.co.uk) for any help with your year end.

## Tax relief for “low earners” in net pay arrangements

The Government’s November 2022 Budget set out plans to address the anomaly that sees pension scheme members who earn less than the income tax threshold being treated differently depending on the type of scheme they are in. Members who pay contributions to schemes that operate ‘relief at source’ (RAS) will receive a 20% top up to their retirement savings through the tax system, even if they don’t pay income tax. Members who pay contributions to schemes that use a ‘net pay arrangement’ (NPA), such as the LGPS, pay their contributions on pay before tax; effectively receiving immediate tax relief at their marginal rate. If a member does not pay income tax then they receive no tax advantages.

To address this disparity, HMRC will identify affected NPA scheme members and invite them to claim top-ups equivalent to the missing 20% tax relief, to be paid into their bank accounts. The intention was for the first such payments to be made in the 2025/26 tax year relating to contributions paid in the 2024/25 tax year. Citing the complexity of the IT arrangements and “other ongoing HMRC delivery programmes” the plan is now for payments relating to the 2024/25 tax year to be paid in the 2026/27 tax year. While these changes won’t impact schemes that operate NPA tax relief directly, trustees/pension committees may feel they want to communicate the changes to members in order to make them aware of their right to claim.

## Events & Podcasts round-up

### The LGPS Success Story

Don’t miss our LGPS Governance, Administration & Project Management event, taking place in London on 8 June. We’re very excited to be hosting our first in-person event since 2019! The event will be an opportunity to discuss the solutions which funds have implemented to improve governance, administration and the delivery of change.

[Register your place here.](#)

### Data Submission for LGPS 2022 Valuation

We ran the third webinar in our LGPS 2022 Valuation series yesterday. Our actuarial experts focused on all things data and what Administering Authorities 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.](#)

### PLSA Local Authority Conference 2022

We’re delighted to be once again supporting the PLSA Local Authority Conference in Gloucestershire on 13-15 June. Spread over three days, the agenda is filled with lots of interesting topics and has a great line-up of speakers, including our very own Susan Black. Susan will be joined by Carolyn Morgan from Avon Pension Fund, and together they will discuss how to “Marie Kondo” your governance arrangements. [Click here for more info and to register.](#)

### LGPS Employer Training

Following the success of our recent LGPS employer training sessions, we’re running another three sessions throughout June. We’ll focus on Pension Outsourcing, Employer Discretions and Assumed Pensionable Pay (examples only). If your Fund would like access to these sessions, or if you have any questions, please don’t hesitate to [get in touch.](#)

### A (Brief) History of UK Pensions and Institutional Investment

For our most recent episode of ‘Hymans Robertson On...’ Ben Farmer was joined by Ronnie Bowie and Andy Green to discuss how the investment landscape has changed over the years, some Hymans’ highlights (and howlers!) and the lessons we can learn for the future. You can [listen to the episode here.](#)

## In brief....

- McCloud - the wrangling continues! The LGA and FBU, acting on behalf of Fire and Rescue Authorities and members of the Firefighters Pension Scheme, have issued a [joint letter](#) to HM Treasury complaining about delays in implementing the reforms required to remedy the

judgment. The letter claims that this is causing immediate financial detriment to affected members who are currently receiving benefits. It also mentions that affected scheme members are preparing legal action over the issue.

- Climate risk alert – the UK’s actuarial profession has issued an [alert](#) to its members to highlight the risk that ‘actuaries may not appropriately consider, or communicate clearly, the impact of climate change and sustainability related issues in their actuarial work’. It urges actuaries to carry out stress and scenario testing in their advice to clients and to consider what support is required from other experts in this area. We are busy advising funds around this – the case study at the article above demonstrates how our climate change modelling feeds into funding strategy decisions at the 2022 valuation.
- STOP PRESS – we’ve just heard that, following a recent consultation exercise, Scottish Ministers have laid [amendment regulations](#) that will come into force in the Scottish LGPS from 1 June 2022. Amongst other things, these introduce significant flexibility around the handling of exit valuations and inter-valuation contribution changes (similar to those adopted in England & Wales in 2020). We’ll digest and share a note shortly with Scottish fund contacts.

## Appendix

### **War in Ukraine – the wider impacts on the LGPS become clearer**

[https://www.hymans.co.uk/media/uploads/Capital\\_Markets\\_Update\\_Spring\\_2022.pdf](https://www.hymans.co.uk/media/uploads/Capital_Markets_Update_Spring_2022.pdf)

### **2022 LGPS valuations: options, opportunities and objectives**

<https://www.room151.co.uk/blogs/2022-lgps-valuations-options-opportunities-and-objectives/>

### **Introducing InflationWatch**

<https://www.hymans.co.uk/insights/research-and-publications/publication/inflationwatch>

### **The Net Zero Challenge**

<https://www.room151.co.uk/blogs/the-net-zero-challenge-for-lgps-funds/>

### **Stressed assured – is your funding strategy resilient to climate risk?**

<https://www.hymans.co.uk/insights/research-and-publications/publication/stressed-assured-is-your-funding-strategy-climate-resilient/>

### **Some cost cap results... finally**

<https://www.gov.uk/government/publications/cost-cap-valuation-of-the-civil-service-pension-scheme>

<https://www.gov.uk/government/publications/cost-cap-valuation-of-the-firefighters-pension-scheme-england>

<https://www.gov.uk/government/publications/cost-cap-valuation-of-the-firefighters-pension-schemes-wales>

<https://www.gov.uk/government/publications/cost-cap-valuation-of-the-police-pension-schemes-england-and-wales>

### **Academies – they're multiplying...**

<https://www.hymans.co.uk/insights/research-and-publications/publication/sixty-second-summary-education-white-paper-and-the-impact-on-lgps-funds-and-employers/>

### **LGPS Online Learning Academy – about to enter its 2nd year of study!**

<https://www.hymans.co.uk/services/lgps-online-learning-academy/>

### **Spotlight on infrastructure**

<https://www.hymans.co.uk/insights/research-and-publications/publication/infrastructure-future-prospects/>

### **The LGPS Success Story**

<https://www.hymans.co.uk/insights/events/the-lgps-success-story/>

### **Data Submission for LGPS 2022 Valuation**

<https://www.hymans.co.uk/insights/webinars/data-submission-for-lgps-2022-valuation/>

### **PLSA Local Authority Conference 2022**

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

### **A (Brief) History of UK Pensions and Institutional Investment**

<https://www.hymans.co.uk/insights/podcasts/investment-a-brief-history-of-uk-pensions-and-institutional-investment/>

**LGA and FBU joint letter to HM Treasury**

<https://www.fbu.org.uk/sites/default/files/circulars/attachments/FBU%20LGA%20Joint%20Letter%20Immediate%20Detriment%20to%20HM%20Treasury%20and%20HO%2004.04.22.pdf>

**Climate risk alert**

<https://www.actuaries.org.uk/system/files/field/document/2022%20Climate%20change%20and%20sustainability%20Risk%20Alert%20final.pdf>

**Scottish amendment regulations**

<https://www.legislation.gov.uk/ssi/2022/153/made>



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