

Current issues in the LGPS

June 2021



Exit credits – no discretion but to use discretion...

A recent judgment has found in favour of MHCLG and upheld the retrospective effect of the 2020 Regulations in England and Wales. The consequence of the Court's decision is that all exit credit payments, which have not already been settled, will fall to be dealt with under the 2020 Regulations. The prior 2018 Regulations, which allowed surplus on exit to be paid automatically to an employer, will not apply. The 2020 Regulations give funds discretion over the amount of any exit credit payable and the judgment included some helpful clarification over how this discretion may be applied. Fuller details are covered in a [blog](#) by Burges Salmon.

Highlights from PLSA conference 2021

The Pensions and Lifetime Savings Association (PLSA) held its annual Local Authority Conference online (rather than in the Cotswolds). Amongst the topics under discussion were:

- TCFD reporting - MHCLG expects the upcoming LGPS consultation to be 'very similar' to the DWP's proposals for private sector schemes
- Public sector exit package cap - a further consultation on this thorny issue is likely to emerge this year
- LGPS pooling – MHCLG suggested that annual cost savings due to pooling are expected to grow steeply and reach £140m by 2023
- Stretched resources – increasing employer numbers and the impact of complying with McCloud, GMP issues, Good Governance and other legislation are creating resource headaches for LGPS teams
- TPR code of practice - concerns were raised about the consultation with a suggestion that a separate code for the LGPS is needed due to its scale and different governance structures – see below...

TPR's single Code of Practice

The Pensions Regulator's [consultation on a new single Code of Practice](#) to cover all regulated schemes closed on 26 May. Whilst the new Code does not extend TPR's powers in the LGPS beyond its existing remit on governance and administration, we are concerned about how its governance arrangements will fit with both local authorities and LGPS funds. For example, the Code's definition of 'governing bodies' includes both scheme managers and local pensions boards; this is unhelpful as boards are unable to exercise decision making powers. We also think it would be helpful for the Code to recognise the unique legal framework under which LGPS administering authorities operate e.g. on areas such as remuneration policy and cyber controls, the vast majority of LGPS funds will need to work within the local authority's constitution and policies in order to ensure that they are appropriate for the fund.

TPR in the short term

TPR has published its [three year plan](#) which sets out its current priorities as well as reflecting on the impact of COVID on the delivery of last year's plan. Its strategic priorities relating to pension savers' money are given as: 1) Security, 2) Value for money, 3) Scrutiny of decision-making and 4) Embracing innovation (by the market). Its other priority is to be a bold and effective regulator.

What's emerging in emerging markets?

In conjunction with wider reviews of equity portfolios many LGPS funds have been considering their allocations to emerging markets. The emerging markets landscape continues to evolve and in particular we are seeing the growing influence of Chinese stocks both in emerging markets but also in global equity markets. Following our recent investment perspectives [article](#), our latest investment [podcast](#) discusses the opportunities and risks they impose, implications for pension fund portfolios, and the actions for investors to take.

Looking ahead to 2022

It may seem far away at the moment, but planning for the 2022 valuations in England and Wales is starting to rev up. Ahead of this round of valuations, we have been asking ourselves some of the questions we expect to hear over the coming months. Our answer to the first question, "Will I be 100% funded at the next valuation?", has just been [published](#) to give some food for thought. Our answers to the other questions will be published throughout June, along with supporting discussions via our Hymans Robertson On... podcast series.

Tackling the pension scammers

DWP is [consulting](#) on measures designed to tackle scammers who target pension scheme members who transfer benefits. These new measures will enable trustees and scheme managers to prevent a transfer request if they see evidence of 'red flags'. The closing date for the consultation is 10 June 2021.

By royal decree

Following on from the announcement in the Queen's Speech about how the McCloud ruling would be incorporated into public sector schemes, Luke Hall (the MHCLG minister) has issued a [statement](#) about the remedy for the LGPS. The 'key points' in the statement are in line with the prior [consultation](#) on the remedy. It also notes that a formal response to the consultation will be published later this year, and that new LGPS regulations giving effect to the changes will come into force on 1 April 2023 (and be retrospective to 1 April 2014).

The Audit Couple

Two recent publications may appear at odds with one another:

- 1 The Financial Reporting Council (FRC) has [published](#) adverse findings made against an accountancy firm and one of its partners for "pervasive failures" in several areas of their audit work including the pension scheme, which "in several respects fell far short of what was required".
- 2 The Association of Professional Pension Trustees (APPT) has [expressed](#) "concerns about the amount of time and resource that is required to respond to enquiries about pension schemes from the auditors".

There are no doubt cases at either extreme i.e. minimal pension queries vs overwhelmingly many. The problem is that the middle ground is very wide... We have noticed a significant step-up in the level of IAS19/FRS102 audit queries over the last couple of years, driven by increased pressure from the FRC. This disciplinary case will no doubt be held forth by auditors as evidence of the need for their enhanced scrutiny. We know that councils and other LGPS employers are finding their audit proposals now come with a wider scope and a larger fee. We continue to engage with auditors on how best to locate that middle ground and, in any event, employers should expect a greater planning focus on pensions.

SAB annual report 2020

The Scheme Advisory Board in England and Wales has published its [annual report](#) which aggregates information from 88 funds as at 31st March 2020. The numbers of employers and members in the scheme continue to grow and are now above 16,000 and 6m respectively. Assets were valued at around £280bn, with roughly 2/3rds in pooled investment vehicles, and net cash flow (contributions vs benefits) is negative but comfortably met by investment income. The aggregate funding level based on local valuation assumptions at 2019 was 98%. The 'Funding' section also contains the latest longevity insights from Club Vita including commentary on the impact of COVID-19.

LGPS Online Learning Academy – graduates to a launch date!

We officially launched the [LGPS Online Learning Academy](#) in May and the response from funds has been fantastic. We also recently explored the reasons why this platform was created within our [60 second summary](#). Our recently produced 'How to' [User Guide](#) document and [User Progress](#) Report document (MI for Fund Officers) are now also available. Please get in touch with [Andrew McKerns](#) if you would like a demonstration or to sign up your Fund.

Keeping the LGPS Connected

On 12 May, Philip Pearson spoke to Valborg Lie of LGPS Central on the new Stewardship Code as part of our [Keeping the LGPS Connected](#) series. Valborg spoke about the challenges faced when implementing the new code, the development of the stewardship agenda, the processes put in place to measure stewardship activities and outcomes along with much more!

Appendix

Exit credits – no discretion but to use discretion...

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

TPR's single Code of Practice

[Single code of practice consultation | The Pensions Regulator](#)

TPR three year plan

[Corporate Plan 2021-24 | The Pensions Regulator](#)

What's emerging in emerging markets

[Emerging market equity - Hymans Robertson](#)

[Investment Insights - The Dragon Awakens - Opportunities in Chinese Equities - Hymans Robertson](#)

Looking ahead to 2022

[Will the LGPS be 100% funded at the next valuation? - Hymans Robertson](#)

Tackling the pension scammers

[Pension scams: empowering trustees and protecting members consultation - GOV.UK \(www.gov.uk\)](#)

By royal decree

[Written statements - Written questions, answers and statements - UK Parliament](#)

[Title \(publishing.service.gov.uk\)](#)

The Audit Couple

[Microsoft Word - FDN Norwich for publication \(frc.org.uk\)](#)

[APPT writes to ICAEW on Auditor Requests for Information – APPT \(Association of Professional Pension Trustees\)](#)

SAB Annual report 2020

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

LGPS Online Learning Academy

[LGPS Online Learning Academy - Hymans Robertson](#)

[Sixty Second Summary - Get your academic hats on - Hymans Robertson](#)

[PowerPoint Presentation \(hymans.co.uk\) – User Guide](#)

[PowerPoint Presentation \(hymans.co.uk\) – User Progress Report](#)

Keeping the LGPS Connected

[Keeping the LGPS connected on Vimeo](#)