

Report To: PENSION FUND MANAGEMENT/ADVISORY PANEL

Date: 15 September 2023

Reporting Officer: Sandra Stewart – Director of Pensions

Subject: LGPS UPDATE

Report Summary: This report provides an update on the latest developments affecting the Local Government Pension Scheme (LGPS).

Recommendation(s): It is recommended that the Panel notes the report and considers the potential impact and implications for the LGPS and GMPF.


Financial Implications: Some of the matters set out in this report could lead to administrative costs and additional liabilities for GMPF and its employers.
(Authorised by the Section 151 Officer)


Legal Implications: The Local Government Pension Scheme Advisory Board is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. The purpose of the Board is to be both reactive and proactive. It will seek to encourage best practice, increase transparency, and coordinate technical and standards issues. It will consider items passed to it from the Department for Levelling Up, Housing and Communities (DLUHC), the Board's sub-committees and other stakeholders, as well as items formulated within the Board. Recommendations may be passed to DLUHC or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards. The Local Government Association represent employers' interests to central government and other bodies on local government pensions policy. Its remit for local government pension policy includes pensions for local authority staff, teachers, and firefighters.
(Authorised by the Solicitor to the Fund)

Risk Management: There are no material risks to consider at this stage. Any risks that may arise will be controlled and mitigated.

ACCESS TO INFORMATION: NON CONFIDENTIAL

Background Papers: Further information can be obtained by contacting Emma Mayall, Greater Manchester Pension Fund, Guardsman Tony Downes House, 5 Manchester Road, Droylsden

 Telephone: 0161 301 7242

 e-mail: emma.mayall@gmpf.org.uk

1. INTRODUCTION

1.1 The purpose of this report is to provide the Management Panel with an update on the latest developments regarding the Local Government Pension Scheme (LGPS). Developments summarised are as follows:

- LGPS Investments Consultation
- College and Academy Accounting
- PLSA Guide for Employers Participating in the LGPS

2. LGPS INVESTMENTS CONSULTATION

2.1 On 11 July 2023, the Department for Levelling Up, Housing and Communities (DLUHC) launched its [consultation](#) seeking views on proposals relating to the investments of the LGPS. The consultation examines asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

2.2 The consultation focuses on the following five key areas:

- Proposals to accelerate and expand investment pooling, with administering authorities confirming how they are investing their funds and why. DLUHC believes that the pace of transition should accelerate to deliver further benefits. They have proposed a deadline for asset transition by March 2025. Going forward, DLUHC wants to see a transition towards fewer pools to maximise benefits of scale.
- A requirement for funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the [Levelling Up White Paper](#).
- Proposals to increase investment into high growth companies through unlisted equity, including venture capital and growth equity.
- Proposed amendments to the LGPS regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.
- Proposals to make a technical change to the definition of investments within LGPS regulations.

2.3 Our Actuary, Hymans Robertson, has issued their [response](#) to the consultation. The main points of this are:

- Hymans agrees that pooling should be completed as quickly as possible, where it achieves clear benefits for funds. But urges the government consider the timescales, as well as reasons for funds to maintain assets outside of the pool.
- They would like to see evidence and a reason for targeting £50–75 billion of Assets Under Management (AUM), to justify the further costs, especially where it will only be achieved by merger.
- Further thought is needed on the optimal scale for different asset classes and potential diseconomies of scale.
- Hymans believes it is not appropriate for government to prescribe allocations to specific asset classes, such as a 10 per cent allocation to private equity, given the fiduciary responsibilities of individual authorities in respect of managing their fund's assets and their responsibilities in ensuring pension payments are made.
- Hymans are concerned about pools providing investment strategy advice to their member funds. Some are not currently equipped to provide this, and it could concentrate risk.

2.4 The consultation closes on 2 October 2023.

3. COLLEGE AND ACADEMY ACCOUNTING

- 3.1 Colleges have their accounting year end on 31 July while academies have their accounting year end on 31 August.
- 3.2 The year end brings about an annual accounting exercise where the Fund's Actuary, Hymans Robertson, calculates the value of an employer's position on their accounting basis.
- 3.3 With the current high yield on UK corporate bonds, which informs the accounting basis discount rate, it is expected many employers will have a net asset in their accounting disclosure and will need to discuss its treatment with their auditor.
- 3.4 The accounting standards (i.e., IFRIC 14) set out a broad approach that could be followed but are open to interpretation, leaving individual employers and auditors to reach their own and often different conclusions. It is expected that employers will opt for asset ceiling calculations to disclose their accounting 'surplus'.
- 3.5 The accounting basis differs from the actuarial basis that is used to value employer liabilities. Some employers might be required to disclose an accounting 'surplus' when in fact they might be in deficit on one of GMPF's actuarial bases.

4. PLSA GUIDE FOR EMPLOYERS PARTICIPATING IN THE LGPS

- 4.1 The Pensions and Lifetime Savings Association (PLSA) has been working on implementing the recommendations made in the report, *The Local Government Pension Scheme: Today's Challenges, Tomorrow's Opportunities*, which identified areas where existing good practice can be fortified and where action can be taken to address the ever-increasing regulatory and environmental challenges facing the scheme.
- 4.2 PLSA has produced [a guide for employers participating in the LGPS](#), which will help employers develop:
 - A sound HR strategy for employees in the scheme
 - A good governance process for managing participation in the LGPS
 - Robust financial and risk management with respect to contributions and liabilities within the scheme
 - Good contract management if they have come to participate in the scheme as an admission body
 - The ability to evidence this best practice to stakeholders.

5. RECOMMENDATION

- 5.1 It is recommended that the Panel notes the report.