Report To:	**PENSION FUND MANAGEMENT/ADVISORY PANEL**
Date:	1 December 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 note the report and consider the potential impact and implications for the LGPS and GMPF.
Financial Implications: **(Authorised by the Section 151 Officer)**	Some of the matters set out in this report could lead to administrative costs and additional liabilities for GMPF and its employers.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	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.
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:

- Scheme Advisory Board Guidance on Academy Conversion
- Inflation figures for September 2023
- The Pensions Regulator Review
- Scottish LGPS Valuations
- Expansion of Automatic Enrolment
- MAPS Pensions Dashboard update

2. SCHEME ADVISORY BOARD GUIDANCE ON ACADEMY CONVERSION

2.1 On 19 October, the Scheme Advisory Board (SAB) published guidance on actuarial approaches adopted by LGPS funds when allocating assets to a local authority school on conversion to academy status.

2.2 When a school is part of a local authority, its members and assets are not normally tracked separately by funds. That means it is not possible to identify the specific deferred and pensioner liabilities that are associated with the school. Therefore, the fund's actuary must make an apportionment of assets and liabilities between the academy and the LA.

2.3 Funds have often differed in their approaches to this issue. The guidance analyses common approaches adopted and the implications arising from each one.

3. INFLATION FIGURES FOR SEPTEMBER 2023

3.1 Inflation figures for the period covering September 2022 to September 2023 were published by the Office for National Statistics (ONS) in October 2023. In the year to September 2023, the rate of inflation, as per the Consumer Prices Index (CPI), was found to be 6.7%.

3.2 September CPI is usually the basis for the annual revaluation, earnings threshold and pensions increase due to apply the following April within the LGPS. Therefore, pensions are expected to increase by 6.7% in April 2024, unless Government deviates from the usual approach. The Pensions Increase Order, which sets out the increase applicable to public service pensions, is usually announced by HM Treasury in February with the increase applying from the first Monday in the new tax year.

3.3 As a reminder, LGPS pensions increased by 10.1% this past April, in line with the September 2022 CPI figure.

4. THE PENSIONS REGULATOR REVIEW

4.1 The Department for Work and Pensions (DWP) conducted a review into the Pensions Regulator (TPR). The review assessed whether TPR remains fit for purpose, and whether it is still required as a public body. It found that TPR is broadly well-run and well-regarded within its industry.

4.2 TPR was last reviewed in 2019. In the 2023 review it was found that all the previous recommendations made in 2019 have since been implemented or made business as usual. This latest review focused on four key areas:

- Governance
- Accountability

- Efficacy
- Efficiency

4.3 The report made 17 recommendations for the improvement of TPR. The most significant recommendations have been listed below:

- TPR's statutory objective to minimise calls on the Pension Protection Fund (PPF) may drive it to be overly risk averse, particularly given the PPF's strong funding position. With the advent of the Defined Benefit funding code, TPR should be better informed to understand which schemes are taking too much risk and which could take more if they wanted.
- There is a case for considering regulation of pension administrators, who are currently outside TPR's remit, and the authorisation of professional trustees.
- DWP should consider delegating day-to-day regulatory powers to TPR. DWP and TPR should jointly produce an options paper to include analysis of what areas of rulemaking could be delegated to TPR.
- TPR's governance panels have no formal way to draw on pensions industry expertise and could benefit from having access to a group of senior staff recruited for this purpose.

5. SCOTTISH LGPS VALUATIONS

5.1 Administering Authorities in England and Wales undertook their actuarial valuation last year as of 31 March 2022. In Scotland, actuarial valuations are undertaken the following year. Currently Scottish LGPS Funds are undertaking their valuations as of 31 March 2023.

5.2 Hymans Robertson have produced a high-level summary of trends they are seeing from the currently ongoing Scottish LGPS actuarial valuations.

5.3 The early valuation results point to an impressive increase in funding for Scottish funds due to changing market conditions. Some funds have reported a 50% increase to their overall funding level. The aggregate funding level across Scotland's 11 LGPS funds is expected to be circa 147% at the 2023 valuation, compared with 106% in 2020.

5.4 Interest rates have risen and as interest rates rise, so do expectations of returns across most asset classes. For a typical fund and their investment strategy, expectations for future investment returns have increased, by around 2% per annum on average. Since future investment returns are expected to be higher, liabilities are lower which leads to improved funding positions.

5.5 On the other hand, Scottish valuations are having to contend with high inflation and higher inflation assumptions. As LGPS benefits are CPI linked, higher inflation results in higher liabilities and a higher cost of providing the benefits that are earned each year.

5.6 Overall, it is expected that employer contributions rates will be decreasing across most employers given the substantial improvements to funding levels. Strathclyde Pension Fund's main employers, which includes the councils, are expected to see employer contribution rates fall from the current 19.3% to 6.5% in 2024-25 and 2025-26, before rising to 17.5% in 2026-27. It is possible that positive valuation outcomes in Scotland could lead some employers to request interim valuations in England and Wales.

6. EXPANSION OF AUTOMATIC ENROLMENT

6.1 Automatic enrolment was introduced in 2012 and requires all UK employers to automatically enrol eligible workers in a qualifying workplace pension scheme, with a specified minimum contribution. The eligibility criteria varies but it is broadly that eligible workers include individuals between age 22 and State Pension age with earnings over a specified amount in a relevant period from a single job. This is known as the 'earnings trigger' and is currently set at £10,000 for the 2023/2024 tax year.

6.2 The Department for Work and Pensions (DWP) noted in a public statement that in the ten years since the introduction of automatic enrolment, 10.7 million people have started saving for their pensions. However, a further 10 million eligible workers remain outside workplace pension schemes because their earnings are below the earnings threshold, or they are below the age of 22. The earnings threshold has been noted as being particularly unfair on part time workers with multiple jobs who might not meet the earnings trigger in one individual job but would meet the earnings trigger across the various jobs that they hold.

6.3 It has been an ambition of Government to expand the scope of automatic enrolment to include more employees. Government recently passed legislation that would help achieve that objective.

6.4 The Pensions (Extension of Automatic Enrolment) Act 2023 received Royal Assent on 18 September 2023. It amends the Pensions Act 2008, to enable the Secretary of State to make new regulations to reduce the lower age limit for auto-enrolment and remove the lower earnings limit for qualifying earnings.

6.5 Government plans to consult on new auto enrolment regulations “at the earliest opportunity” according to Viscount Younger of Leckie the Parliamentary Under Secretary of State at the Department for Work and Pensions. A precise timescale has not been provided.

7. MAPS PENSION DASHBOARD UPDATE

7.1 On 10 October 2023, the Money and Pensions Service (MaPS) published their eighth Progress Update Report. The report provides details of MaPS work towards preparing industry for connection to the dashboards ecosystem. The report calls on pension providers and schemes to continue to prepare for dashboards. It is expected that the pensions industry will connect in line with the forthcoming connection guidance, therefore providers and schemes are expected to be working through connection issues, such as data readiness, now.

8. RECOMMENDATION

8.1 It is recommended that the Panel notes the report.