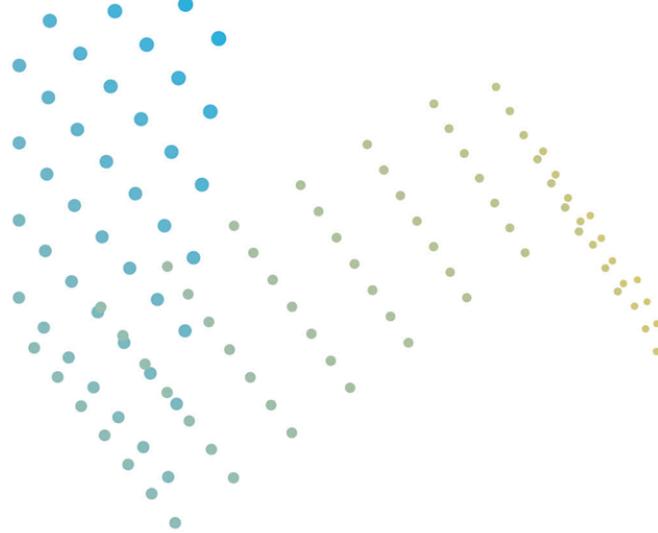


Current issues in the LGPS



May 2024



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Partner

Funding and investment strategies are interdependent – how could major economic changes since 2022 affect these as funds start planning for the next round of valuations? And amongst other things, this month we explore responsible investment and the results of the 2020 cost control valuation (please read with a damp cloth applied to your forehead...).

A new era for funding in the LGPS?

Minds in England & Wales are now turning to the 2025 valuations and the triennial review of funding and investment strategies. Rob Bilton and Iain Campbell [recently considered](#) whether the significant change in economic environment since 2022 heralds the beginning of a new LGPS funding era and what it could mean for your strategies.

Focus on RI:

A guide to natural capital

We all rely on the natural world, which is why the issues of climate change and biodiversity loss are so momentous. As mankind removes and damages natural capital without taking steps to protect or regenerate it, we jeopardise the benefits nature provides. The good news is that, as our collective focus on these issues has increased, so too have ideas – and investments – that aim to preserve nature. We've created this [short guide](#) to showcase examples of natural capital while exploring the return potential, how natural capital assists in risk management and how it can help you to create impact as an investor.

Mission statement – our ABC for a better future

We've recently [published](#) an updated Responsible Investment Mission Statement. This defines our three core pillars of activity, each of which reflects an outcome we're working towards.

- **A**chieving net zero: we help our clients understand what net zero means for them and how they can take meaningful action to align with this ambition.
- **B**eing better stewards: we help our clients create approaches to stewardship that reflect the resource they're able to commit. Where necessary, we also help them fill in the gaps. The next section below provides some hints and tips.
- **C**reating positive impact: we help our clients better understand how they can have impact, allocate capital, and exercise stewardship to create positive real-world outcomes, whilst continuing to meet their fiduciary responsibilities.

Being better stewards

Latest figures show that around 25% of the LGPS are signatories to the UK Stewardship Code. The Code has become recognised as a leading standard against which asset owners can demonstrate their stewardship credentials. In this [article](#), we set out what we've learned from helping our clients become signatories (with a 100% success rate). If you're interested in becoming a signatory, or you're a signatory already and perhaps looking to refine your approach in a few areas, please [get in touch](#).

So, tell me, how are you getting on with pooling?

And private equity, and levelling up, and investing in the UK. Starting from 2023/24, Fund annual reports will need to report on progress made in each of these areas – as well as their stewardship activity. The requirements are digested in this [60-second summary](#). It's important to reach out to your auditors, asset pool and investment managers as soon as possible to develop a plan and gather all the information that will be needed. Please reach out to your investment consultant about any areas of uncertainty.

Who wants to live forever?

In addition to providing pension funds with longevity analysis, Club Vita regularly host webinars to explore emerging trends in longevity risk. Their latest webinar series, focused on the "Risk of Living Longer", explores the impact of achieving significantly longer lifespans. How well is the risk of living longer really understood?

The webinar programme is:

- Tuesday 16 April – An introduction to the question of human longevity: how long can we go?
- Tuesday 7 May – The biology of aging
- Thursday 28 May – Cancer research
- Tuesday 18 June – Biological clocks
- Tuesday 9 July – Using AI to improve and advance healthcare

Register for future sessions [here](#). Watch recordings of historic sessions [here](#).

2020 cost control valuations – the results are in!

There was a flurry of activity last month around the long-awaited results of the 2020 cost control mechanism.

McCloud appeal fails

Firstly, the Court of Appeal [rejected](#) requests from the British Medical Association (BMA) and the Fire Brigades Union (FBU) for a second opinion on whether His Majesty's Treasury (HMT) was entitled to factor McCloud Remedy costs into the cost control mechanism. By way of background, HMT had classified the costs of the McCloud Remedy as 'member costs' and not 'employer costs'. This classification meant that BMA and FBU members of their respective public sector pension schemes would not benefit from changes (such as a reduction in their contributions or an improvement to their accrual rate) that would otherwise have arisen following the results of the 2016 cost control valuation. This should give certainty that there will be no benefit changes to public sector pension schemes because of the 2016 cost cap valuations (assuming no more legal challenges are launched...).

2020 results published

Perhaps unsurprisingly, the appeal outcome was swiftly followed by the results of the LGPS cost control valuations at 2020 in [England & Wales](#) and in [Scotland](#). In both cases, the 'core' cost cap fell significantly, by 3.2% of pay (from 14.6% to 11.4% of pay) in England & Wales and by 2.8% of pay (from 15.2% to 12.4% of pay) in Scotland, with lower underlying longevity improvement assumptions being the key reason behind the reductions. However, **no changes will be made to the benefit or employee contribution structure of either scheme**, despite the result in England & Wales breaching the 3% cost cap corridor. This is because its 'economic check', which is based on long term economic conditions and relies on the Government's SCAPE discount rate, was assessed to be a whopping 21.9% of pay (and so well above the employer cost cap of 14.6%). Now,

if you're finding all this confusing, you're not alone! An explainer about changes to the cost control mechanism, including the introduction of the economic check, was covered in our [September 2023 Current Issues](#).

It's all academic

The Education & Skills Funding Agency (ESFA) has published best practice [guidance](#) for academies in the LGPS. It includes high-level information about LGPS membership, contributions and how to engage with an LGPS fund. The guidance provides useful signposting and links to more detailed information, to help newer academies grappling with the LGPS. Particularly useful are sections that clarify differences between a fund's triennial valuation and an employer's annual accounting valuation (a common source of misunderstanding for even seasoned academies). Also included is a useful summary of the DFE Academy LGPS guarantee, with focus on outsourcing and "pass-through" arrangements.

Breaking (down) the Code

Exciting news – well over a quarter of LGPS funds are now utilising our LGPS compliance tool for the General Code of Practice! Our user-friendly self-service tool helps funds assess their compliance level easily, with a breakdown of specific actions expected by the Pensions Regulator. Features include self-assessment, instant, editable compliance reports, progress tracking, and allocation of actions for governance teams. We're also seeing many funds take up our offer of support with training for committee, board and officer groups on the General Code. If you'd like to find out more about our compliance tool, please [get in touch](#).

Keeping an eye on cashflows

The current high inflation rate, potential reductions in employer contributions, and an uncertain future inflation outlook all mean that cashflow management has quickly become a key issue for LGPS funds. Our analysis shows last month's annual pension increase of 6.7% means that over 50% of LGPS funds are now in a cashflow negative position (ie require regular income from assets to pay member benefits). Being cashflow negative itself is not unexpected (after all the assets have always been there for the purpose of paying benefits), but it does necessitate more careful cashflow management and monitoring. Our [on-demand webinar](#) provides more detail. Please speak to your Hymans consultant for updated fund-specific analysis and advice.

Continued accounting surpluses at March 2024

Having passed 31 March 2024, many local authorities and public sector bodies are knee-deep in the preparation of their annual accounts. With high corporate bond yields continuing and improved investment performance for many LGPS funds over the first quarter of the year, employers may find themselves in an improved accounting position compared to 31 March 2023. This improved position could lead to a net asset (or surplus) position which employers should consider how to disclose before finalising their accounts. For further information about accounting surpluses, or to speak to one of our accounting specialists, please [get in touch](#).

Capital markets

Q1 brief

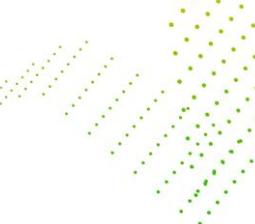
Economic optimism and AI enthusiasm more than offset expectations of fewer rate cuts in 2024 in Q1, as equities recorded their best first quarter in five years and credit spreads fell, despite significant rises in sovereign bond yields. Check out our [review](#) of markets over the first quarter of 2024.

Spring update

Amid ongoing resilient US growth, and improving activity indicators elsewhere, the fundamental outlook for risk assets has improved, but our concerns are shifting towards valuations, which appear to have baked in a lot of good news. Read more in our Spring 2024 [Capital Markets Update](#).

Events, webinars & training

Managing risk in the LGPS



When you're managing a pension scheme with over 7 million members, risk is never far from your mind. Whether you're making investment decisions, liaising with employers about contributions, or making sure that member service is good, you're managing risk. Over the last year we delivered a series of LGPS risk management webinars focused on how and why funds should look at risk holistically. From funding risk monitoring to cash flow risk and cyber risk, we've shone a spotlight on how specific risks can be managed. We've developed a [hub page](#) so that you can refer to our risk management content at any time.

Together, stepping into the future of the LGPS conference

We have just one week to go until our conference on 16 May in Edinburgh! The event, which is for LGPS fund officers only, will have a future focus, underpinned by sharing experience, best practice and actionable outputs. You can view the conference agenda [here](#).

In brief

Inflation figures

The latest [ONS figures](#) recorded annual CPI for the year to March 2024 at 3.2%, down from 3.4% in the prior month. RPI for the same period was 4.3%.

LGPS fund audit

The FRC has issued [sanctions](#) against Grant Thornton for compliance failings in its audit of a local authority's fund for the year ended 31 March 2021. The failings included two errors that appeared in the LGPS fund's audited financial statements that formed part of the local authority's annual report (although had been corrected in the fund's own financial statements) and insufficient audit evidence to verify that the value of investments was materially accurate.

Dashboards

The Pensions Dashboards Programme (PDP) has published a [blog](#) about its connection timetable and accompanying guidance, and the DWP has issued [guidance](#) to help funds prepare an annualised version of the accrued pot value for members with certain money purchase benefits.

Climate risk

The Pensions Regulator (TPR) has published its [findings](#) from a review of climate-related disclosures across a sample of private sector schemes with more than £1 billion in assets. And on fiduciary duties around climate change, the Work and Pension Committee (WPC) has written a [letter](#) to the Pensions Minister, Paul Maynard, ahead of a series of roundtables that the Minister is planning to hold on the subject.

Public service pension increases

The House of Commons library has published a briefing [paper](#) about arrangements for annual increases of public service pensions in payment.

Public sector exit payments

A new Private Member's [Bill](#) has been put forward that might lead to HM Treasury looking again at limiting exit payments to employees of public sector bodies. Previous legislation in this area, often referred to as the '£95k exit payment' rules, was repealed.

The Pensions Regulator

TPR has [published](#) its three-year corporate plan, explaining how it will protect savers' money, help to enhance the pensions system and support innovation. Priorities include raising standards of trusteeship, data quality and admin; Value for Money and decumulation in DC schemes; and the new funding regime and emerging propositions for DB schemes. It mentions development of a framework for oversight of professional trustees and talks about some having become or becoming 'systemically important'.

Appendix

A new era for funding in the LGPS?

<https://www.hymans.co.uk/insights/research-and-publications/publication/a-new-funding-era-in-the-lgps/>

Focus on RI:

A guide to natural capital

https://www.hymans.co.uk/media/uploads/A_guide_to_natural_capital.pdf

Mission statement – our ABC for a better future

<https://www.hymans.co.uk/media/uploads/RI-MissionStatement-10042024.pdf>

Being better stewards

https://www.hymans.co.uk/media/uploads/Being_better_stewards_-_What_you_need_to_know_as_a_Stewardship_Code_signatory.pdf

So, tell me, how are you getting on with pooling?

https://www.hymans.co.uk/media/uploads/60-second_summary_-_Preparing_LGPS_funds%E2%80%99_annual_reports_-_new_investment_disclosures.pdf

Who wants to live forever?

<https://www.clubvita.net/uk/events>

<https://www.clubvita.net/uk/events/event-recordings>

2020 cost control valuations – the results are in!

McCloud appeal fails

<https://www.judiciary.uk/judgments/british-medical-association-v-his-majestys-treasury-and-another/>

2020 results published

https://assets.publishing.service.gov.uk/media/660fe1989f92ac001a516d45/LGPS_England_and_Wales_2020_Valuation_Valuation_Report.pdf

https://assets.publishing.service.gov.uk/media/66226d7811d9f57e3ba7e563/LGPS_Scotland_2020_Valuation_Valuation_Report.pdf

<https://www.hymans.co.uk/insights/research-and-publications/publication/current-issues-in-the-lgps-september-2023/>

It's all academic

<https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/local-government-pension-scheme-lgps>

Keeping an eye on cashflows

<https://event.on24.com/wcc/r/4366370/2A1C3FA73A9FAA7EB4E7A03F3C23E599>

Continued accounting surpluses at March 2024

LGPSCentralAccountingTeam@hymans.co.uk

Capital markets

Q1 brief

<https://www.hymans.co.uk/insights/research-and-publications/publication/market-brief-march-2024/>

Spring update

<https://www.hymans.co.uk/insights/research-and-publications/publication/capital-markets-update-spring-2024/>

Events, webinars & training

<https://www.hymans.co.uk/managing-risk-in-the-lgps/>

https://www.hymans.co.uk/media/uploads/Hymans_Robertson_LGPS_Conference_Agenda.pdf

In brief...

<https://www.ons.gov.uk/economy/inflationandpriceindices>

<https://www.frc.org.uk/news-and-events/news/2024/04/sanctions-against-grant-thornton-uk-llp/>

<https://www.pensionsdashboardsprogramme.org.uk/2024/04/09/connection-timetable-update/>

<https://www.gov.uk/guidance/annualised-accrued-value-calculations-for-pensions-dashboards>

<https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2024-press-releases/review-shows-how-pension-trustees-are-addressing-climate-risks-and-opportunities>

<https://committees.parliament.uk/publications/44325/documents/220225/default/>

<https://commonslibrary.parliament.uk/research-briefings/sn05434/>

<https://publications.parliament.uk/pa/bills/cbill/58-04/0133/230133.pdf>

<https://www.thepensionsregulator.gov.uk/en/document-library/corporate-information/corporate-plans/corporate-plan-2024-27>