

# Current issues in the LGPS

February 2023

## A bumper LGPS investment outlook!

We have published our first [LGPS Annual Investment Outlook](#). Here, we provide our perspectives on key investment issues facing the LGPS in the year ahead. 2022 proved to be a turbulent year and there are plenty of challenges waiting in 2023. We cover market views, regulations, Levelling Up and local investment, Net Zero, cashflow, investing in the UK and renewable infrastructure. We hope you find the articles of interest and, of course, our consultants would be happy to discuss any of the topics covered with you.

## Breaking news - DLUHC cost control consultation

DLUHC have just published a [consultation](#) on proposed amendments to the Scheme Advisory Board's cost control mechanism. This affects all LGPS funds in England and Wales. The mechanism operates in addition to the HM Treasury cost control valuations (which apply to all public sector pension schemes) to recognise that the LGPS is unique in having funded schemes that are administered locally. The broad purpose of the consultation is to update the SAB mechanism to align with the HMT cost control valuations (ensuring the SAB mechanism can still influence the HMT outcome) and give the SAB greater flexibility in how it manages any cost variations (instead of the current prescriptive approach). We will be formally responding to the consultation (closing date 24 March 2023) and will share the response with administering authorities.

## LGPS priorities for the year ahead

What priorities should funds be focusing on and planning for this year? In case you missed it, our team share their thoughts in our annual [blog](#) on priorities for the year ahead. From enhanced monitoring to workforce planning and climate action plans (plus more!), it's going to be another busy year.

## The 2022 valuation finish line is in sight

Hopefully for most funds in England & Wales, the valuation is now in its final stages with the summary valuation reports and rates & adjustments certificates being drafted. At 2022, the additional reporting requirements include explicit statements about how climate change risk has been factored into the valuation and clear information on how any prepayments have been calculated. The SAB valuation dashboard is also likely to be slightly updated after recent correspondence with GAD – hopefully this will be confirmed shortly. For those who are still in discussions with individual employers, the hard deadline of 31 March 2023 should be used to focus minds.

## Getting ready for 2023 in Scotland

As one round of valuations finish in England & Wales, another begins in Scotland. This valuation will likely see very strong funding positions, requiring an in-depth review of the balance between contributions, investment risk and prudence – something we're looking forward to helping with in the coming months. We have also recently been engaging with GAD to help them finalise their Section 13 report on the 2020 round of local valuations. Hopefully the report will be ready to share with funds before the 2023 valuations get into full swing (albeit we do not expect the outcomes to affect funds' approaches to the valuation or funding of benefits).

## Pension scams and the risks of processing member transfer requests

The Pensions Ombudsman recently [published a determination](#) upholding a complaint regarding the processes taken by Teachers' Pensions in transferring out accrued rights to another arrangement, instructing that those benefits be re-instated in the Teachers' scheme. We're aware that many administering authorities struggle with cases such as this, particularly given the rise of pension scams and the need for greater vigilance in agreeing to transfers. We're currently considering what support we might be able to offer in this area and hope to come back with further information shortly.

## Education reforms

Following on from the Government's education [White Paper](#) in England, Parliament discussed the Government's [Schools Bill](#) before it was scrapped in December 2022. Academisation is still allowed and expected on the same terms as before and we don't expect an immediate change in the pace of new academies becoming LGPS employers. In November 2022, the [ONS reclassified](#) Further Education bodies as public sector bodies. This includes FE and sixth form colleges and their subsidiaries (who are now subject to "Managing public money" guidance). No immediate action is required for colleges' existing LGPS participation and funding strategies, but we expect further discussions in this area.

## 2023 LGPS accounting has something for everyone

As the new year celebrations fade swiftly into the memory bank, we start to look further ahead to the next round of LGPS year-end accounting exercises. They are currently shaping up to bring employers some very good IAS19/FRS102 results but also some new challenges (or at least ones that haven't really needed to be considered for many a year). Find out more about potential accounting surpluses, 10.1% increases to pensions in payment, new funding valuation results etc in this accounting [blog](#).

## Why improving user experience (UX) matters

For something a bit different from the usual pensions related topics, Chris Varley, our Head of LGPS Digital Strategy, discusses why improving User Experience (UX) is crucial for funds and employers looking to maintain a high-quality service in a rapidly changing society. There's currently a lot of investment in digital innovations, but many transformation projects fail because organisations overlook listening to their end users and their needs. UX specialists employ specialist methods to understand user needs and design software that is easy to use, productive and that attracts and retains users. This [article](#) discusses some of the techniques you can use and why adopting a continuous improvement mindset is necessary to meet the evolving needs of scheme members.

## Conferences & webinars:

### LGA LGPS Governance Conference, 19-20 January

We kicked off the 2023 LGPS events calendar with Ian Colvin and Steven Scott participating in the LGA Governance Conference in Cardiff. The annual conference covered a range of topics including good complaints handling, how to keep on the right side of the law and responsible investment. We've summarised the key points from each session in our [conference highlights](#).

### Effective Business Planning in the LGPS, 15 February

[Don't miss the second webinar](#) in our two-part series focused on Effective Business Planning in the LGPS. Taking place on 15 February, Susan Black will be joined by Kate Dickson to discuss key success measures, creating a plan for implementation and delivery, and monitoring and reporting.

## COP15 Biodiversity Conference

In December 2022, the [COP15 Biodiversity Conference](#) saw nearly 200 countries adopt a historic agreement aiming to halt and reverse biodiversity loss by 2030. The resulting Kunming-Montreal Framework set out ambitious global targets, including mobilising significant biodiversity-related funding, cutting food waste in half and protecting 30% of Earth's lands and oceans by 2030. This is a key turning point for the preservation of nature which will have

important implications for companies and investors. Momentum is building and this agreement will encourage asset owners to take immediate action to understand the impacts of their portfolios on biodiversity and nature.

### Committee and Board knowledge levels increase in non-traditional topics

At our recent [webinar](#), we discussed all matters training and governance within our reveal of the 'national' National Knowledge Assessment [results](#). The headline news from the results has seen an increase in knowledge in the 'non-traditional' topics of Governance and Administration but a surprising decrease in knowledge in areas of Investment.

Susan, Andrew and Alan were delighted to be joined by TPR policy lead, Nick Gannon. Nick shared his thoughts on the NKA results and also what he believes LGPS funds should focus on in the area of training and governance. For any funds that did not take part, the assessment is still **open** for you to plug your Committee and Board knowledge and skills levels into and benchmark where you are on your training journey.

### Excess deaths in 2022

2022 was another unusual year for UK mortality. We again saw more deaths in the UK than expected under pre-pandemic projections. However, the number of deaths mentioning COVID-19 was relatively low. What is causing the excess deaths? Will the pattern continue? Is 2022 mortality data representative of the future when setting pension fund longevity assumptions? Club Vita are hosting a webinar where a panel of industry experts will debate what's causing these excess deaths and share their expectations for the future. Please [register here](#) to join their discussion on Thursday 9 February at 1pm – 2.15pm.

### In brief...

- Our LGPS Governance, Administration and Projects (GAP) Team has grown throughout 2022 and so we thought it was time to refresh our [website](#). We'd love to know what you think.
- The Department for Business, Energy and Industrial Strategy is consulting on calculating holiday pay for workers with irregular working patterns. The outcome of this consultation may impact some LGPS employers. You can read more [here](#).
- On 9 December, the Chancellor/HMT announced the [Edinburgh Reforms](#), with the aim of making the UK the world's most innovative and competitive global financial centre. The accompanying [ministerial statement](#) mentions upcoming consultations on new guidance around LGPS asset pooling and on illiquid investments.
- Our Winter [Capital Markets Update](#) looks at the latest global themes and trends across asset classes.
- The DWP has finalised its [Guidance on Deferred Connection](#) to pensions dashboards. Our on-demand [virtual fireside chat](#), with guests from the Pensions Regulator (TPR), Sackers LLP and Aegon, discussed the pinnacles and pitfalls on the journey to connection.
- The BoE's [Financial Stability Report for December](#) says that LDI funds' resilience to the speed and scale of gilt-yield movements was insufficient, and their buffers were too low and less-usable than expected. It recommends that TPR, FCA and overseas regulators take steps to ensure that funds with LDI strategies meet appropriate levels of resilience to higher interest rates.
- New [Treasury Directions](#) set out how the various public sector schemes will use their powers in connection with the McCloud remedy. The LGPS-specific directions are in Part 4.
- TPR has appointed Nausicaa Delfas as its new chief executive, taking over the role in March 2023 from Charles Counsell.
- The Chancellor [confirmed](#) the date of the Spring Budget to be 15 March.
- The House of Commons Work and Pensions Committee has [published](#) the Government's response to its 'Saving for later life' recommendations

## Appendix

### A bumper LGPS investment outlook

<https://www.hymans.co.uk/insights/research-and-publications/publication/lgps-investment-outlook-2023/>

### Breaking news - DLUHC cost control consultation

<https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-scheme-advisory-board-cost-management-process/local-government-pension-scheme-changes-to-the-scheme-advisory-board-cost-management-process>

### LGPS priorities for the year ahead

<https://www.hymans.co.uk/insights/blogs/blog/key-priorities-for-the-lgps-in-2023/>

### Pension scams and the risks of processing member transfer requests

<https://www.pensions-ombudsman.org.uk/decision/2022/po-26616/teachers-pension-scheme-po-26616>

### Education reforms

<https://commonslibrary.parliament.uk/research-briefings/cbp-9511/?msclid=c99d0c26c21911ec8abf016d555eb430>

<https://bills.parliament.uk/bills/3156>

<https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicstatisticssectorclassificationclassificationupdateandforwardworkplan/november2022>

### 2023 LGPS accounting has something for everyone

<https://www.hymans.co.uk/insights/blogs/blog/lgps-accounting-season-is-fast-approaching/>

### Why improving user experience (UX) matters

<https://www.hymans.co.uk/insights/blogs/blog/why-improving-user-experience-ux-matters/>

### Conferences & webinars:

[https://www.hymans.co.uk/media/uploads/Conference\\_Highlights\\_-\\_LGA\\_LGPS\\_Governance\\_Conference\\_19-20\\_January\\_2023.pdf](https://www.hymans.co.uk/media/uploads/Conference_Highlights_-_LGA_LGPS_Governance_Conference_19-20_January_2023.pdf)

<https://event.on24.com/wcc/r/3997159/04B519A5C7A2606279810F518DCA14E0>

### COP15 Biodiversity conference

[https://www.undp.org/events/cop15-un-biodiversity-conference?utm\\_source=EN&utm\\_medium=GSR&utm\\_content=US\\_UNDP\\_PaidSearch\\_Brand\\_English&utm\\_campaign=CENTRAL&c\\_src=CENTRAL&c\\_src2=GSR&gclid=EAlaIqObChMI9-aFnpX0\\_AIVC7TtCh0zKQ8aEAAAYAiAAEgKe7vD\\_BwE](https://www.undp.org/events/cop15-un-biodiversity-conference?utm_source=EN&utm_medium=GSR&utm_content=US_UNDP_PaidSearch_Brand_English&utm_campaign=CENTRAL&c_src=CENTRAL&c_src2=GSR&gclid=EAlaIqObChMI9-aFnpX0_AIVC7TtCh0zKQ8aEAAAYAiAAEgKe7vD_BwE)

### Committee and Board knowledge levels increase in non-traditional topics

<https://event.on24.com/wcc/r/4059731/3A16E72F47ADB41DC4EA1F2899905F0>

[https://www.hymans.co.uk/media/uploads/2022\\_LGPS\\_National\\_Knowledge\\_Assessment.pdf](https://www.hymans.co.uk/media/uploads/2022_LGPS_National_Knowledge_Assessment.pdf)

### Understanding the impact of 2022 data on pension fund longevity assumptions

[https://us06web.zoom.us/webinar/register/1116746684075/WN\\_1mYMbNw0QQ-bYBnHfYhi0A](https://us06web.zoom.us/webinar/register/1116746684075/WN_1mYMbNw0QQ-bYBnHfYhi0A)

## Appendix

### In brief....

<https://www.hymans.co.uk/services/governance-administration-projects/>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1128348/holiday-entitlement-part-year-irregular-hour-workers-consultation.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128348/holiday-entitlement-part-year-irregular-hour-workers-consultation.pdf)

<https://www.gov.uk/government/collections/financial-services-the-edinburgh-reforms>

<https://questions-statements.parliament.uk/written-statements/detail/2022-12-09/hcws425>

<https://www.hymans.co.uk/insights/research-and-publications/publication/capital-markets-update-winter-2023/>

<https://www.gov.uk/government/publications/pensions-dashboards-guidance-on-deferred-connection/pensions-dashboards-guidance-on-deferred-connection>

<https://www.hymans.co.uk/insights/webinars/a-virtual-fireside-chat-talking-all-things-pensions-dashboard/>

<https://www.bankofengland.co.uk/financial-stability-report/2022/december-2022>

<https://www.gov.uk/government/publications/public-service-pensions-and-judicial-offices-act-2022-treasury-directions>

<https://questions-statements.parliament.uk/written-statements/detail/2022-12-19/hcws458>

<https://committees.parliament.uk/publications/33625/documents/183629/default/>