

Current issues in the LGPS

October 2021

MHCLG has a new Luke

The Ministry of Housing, Communities and Local Government (“MHCLG”) has rebranded and will now be known as the Department for Levelling Up, Housing and Communities (“DLUHC”). The former minister with LGPS responsibilities for England and Wales, Luke Hall, has been relieved of his ministerial duties - his replacement is likely to be Kemi Badenoch. Whoever the new minister is, it is to be hoped that they soon get to grip with their bulging in-tray of LGPS issues.

Section 13 delayed

With the changes going on at MHCLG/DLUHC, the Government Actuary’s Department have informed us that their Section 13 report covering the 2019 valuations in England and Wales will be delayed until the second half of October.

Upcoming Webinars

Planning for 2022 valuations

With less than 6 months until the next round of valuations in England & Wales, attention should be turning to preparation and planning for this important risk management exercise. Experts from our actuarial, investment and project management teams will be discussing the things that funds should consider ahead of the 2022 valuation at our webinar on 14 October. For further details and to register, please click [here](#).

No time to COP out – the journey to net zero!

The anticipation surrounding the upcoming [United Nations Climate Change Conference \(COP26\)](#) is reaching fever pitch. World leaders will soon descend on Glasgow with a common objective, to progress the goals of the Paris Agreement and accelerate plans to reach net zero. But what does this mean for pension funds? [Join](#) us on 9 November for a virtual event where we will set the scene on how financial institutions can take action. For the LGPS specifically, we will bring net-zero targeting to life via an engaging Panel discussion featuring in-house experts and experienced professionals from funds and pools. They’ll explore the practical steps that funds can take to successfully navigate the transition.

Keeping the LGPS Connected: National LGPS frameworks

Please join us on Wednesday 20 October for a chat with Leon Thorpe (National LGPS Frameworks officer). With the launch of the latest iteration of the actuarial, benefits and governance consulting framework on 1 July, we’ll be discussing how funds can use frameworks to enhance their procurement exercises. You can register [here](#) for the webinar.

Webinars On-demand

Building a more diverse and inclusive future

As part of our 100th birthday activity, we hosted a virtual and diversity and inclusion event on 29 September. In case you missed it, complete the registration details for the [keynote speakers](#) and break-out sessions to catch on-demand:

- [Tackling barriers to social mobility within organisations and the wider market](#)
- [The power of data in addressing inequality](#)
- [Steps to creating an inclusive environment](#)

Accounting round-up

A recent revision to [ISA 540](#) led to some auditors raising queries (relating to controls around data and models) very late in the day for March year end audits. We have been actively engaging with the major audit firms and the NAO to minimise cost and disruption for employers and this issue appears to now be put to bed. Academy accounting season is now well underway - we recently hosted a free webinar (click to see [replay](#)) to help academies understand their FRS102 disclosures, including the impact of audit hot topics and recent legal cases.

The politics of climate change

Remaining on the subject of climate risk, the Work and Pensions Committee (WPC) have turned up the heat (pun intended!) on the Government. Ahead of COP26, they have published a [report](#) urging the government to “show global leadership on pension and climate change”. The substance of the report addresses key areas such as reporting standards, governance and investment and stewardship. It picks out the LGPS as a large scheme, stating it “could be well placed to demonstrate and develop best practice in pension scheme governance, including on climate change”. The report chimes with a recent House of Commons briefing note titled [“Pension scheme investments and climate change”](#). Whilst outlining how government policies have evolved in relation to climate risk, it acknowledges areas where more could and is being done behind the scenes to assist pension schemes.

Pensioners in the news

The National Audit Office has recently published a [report](#) on the underpayment of state pension by DWP, which it estimates to be in the region of £1bn. The report appears to suggest this is an underpayment of the basic State Pension and not the pre 2016 Earnings Related element. It is hoped, therefore, this has no knock-on effect for occupational schemes, such as the LGPS, where contracted out rights are concerned. Better news for some pensioners, following on from the unwelcome announcement some days earlier that the Government has suspended the triple lock guarantee for one year at least, restricting the annual increase to State Pensions in April 2022.

Summit to talk about

What is the “flaw of averages” and how does it affect your actuarial valuation? Douglas Green spoke at the [LGC Leeds](#) Investment Summit on 10 September, discussing what your valuation is – and isn’t – telling you. This took a tour via Jeff Bezos, family size statistics, and DNA “matching” in court cases – if you were present then you can watch it again online over the next fortnight via the LGC registered access. In any event, there is a summary of the key issues [here](#). Do get in touch if you think a re-run would be helpful for your Committee or Local Board, as it was well received on the day.

Pooling delivers material benefits

The above headline, relating to recently published research into the pooling experience of eleven international pension systems, is perhaps no surprise. Of more interest was the finding that there is no single best approach to pooling, but that success typically involves:

- Governance structures that promote efficient decision making and accountability
- Strategic planning based on shared views of long-term asset allocation
- Clear sense of purpose, coupled with the culture and incentives needed to attract and retain talented staff
- Strong sponsorship from government underpinned by regulation where appropriate
- Sharp focus on building trust with, and delivering value to, stakeholders.

The research, commissioned by LGPS pools in England & Wales, found no clear relationship between scale, cost savings and performance, though participants agreed that long-term investment performance after costs was the most meaningful measure of success.

UK life expectancy: feeling the impact of 2020

The latest data from the ONS shows a big drop in life expectancy during 2018-20 compared with during 2017-19. However, the headline figures hide a wide variety of underlying impacts at a more granular level. From a LGPS perspective, we need to recognise that these are population level statistics and consider how the socio-economic mix of the fund's membership compares to the general population. As we approach the 2022 valuations, we will be relying on [Club Vita](#) analysis to ensure that we set longevity assumptions that reflect the specific characteristics of the membership. Discussion around the differing patterns in national and regional data can be found [here](#).

No such thing as a free lunch!

With outsourcing of catering and cleaning services becoming ever more popular in the Academy sector, the Department for Education (DfE) have started to look closely into the inherent "guarantees" offered by the outsourcing academy. The DfE is concerned that academies are not telling them about these outsourcings (especially where a pass-through arrangement is put in place). The heart of the issue is the overarching DfE academies' [guarantee](#) – this only covers outsourcings/pass through arrangements where the employees concerned have previously been **directly** employed by the academy/trust. However, in reality, the catering or cleaning services are often transferred from the local authority to the new contractor, so members are never employed directly by the academy. This may affect the funding strategy applied to these contractors and may require a review to ensure all arrangements suitably reflect this risk. One to pick up with your actuary!

Upcoming industry events

It's been great to see the return of face-to-face events in LGPS – we're very much looking forward to seeing you all in person again. This month, we'll be attending, chairing and speaking at the annual LGC Investment Seminar Scotland in Edinburgh on 21-22 October. Now in its 6th year, the event will provide educational and valuable content directly relevant for the LGPS community in Scotland. [See here for more information and to register](#).

We're also delighted to sponsor this year's Room 151's LGPS Investment Forum, taking place on 16 November at The London Stock Exchange. This year's event will focus on fund valuations, asset allocation and risk management, COP26, TCFD reporting, plus lots more! You can [register your place here](#).

In brief...

- The DWP [proposes](#) to reduce fixed rate GMP revaluation to 3.25% p.a. for leavers between 6 April 2022 and 5 April 2027 (the current rate is 3.5%). This is the 9th rate change and is somewhat lower than the 8.5% p.a. that applies to those who left before 6 April 1988!
- There will, as anticipated, be an [Autumn Budget \(plus Spending Review\)](#) on 27 October 2021.
- HOT OFF THE PRESS! HM Treasury has issued its [response](#) to its consultation on the cost control mechanism. It has decided to proceed with all three of its proposed changes i.e. only considering service in the reformed schemes, widening the 'breach corridor' to +/- 3%, and an economic sense-check for breaches (linked to long-term GDP expectations).

Appendix

Webinar: planning for 2022 valuations

<https://event.on24.com/wcc/r/3436289/5EC52213ED8D820F23B3D14B86FDFDB1>

Webinar: No time to COP out – the journey to net zero!

[HOME - UN Climate Change Conference \(COP26\) at the SEC – Glasgow 2021 \(ukcop26.org\)](https://www.ukcop26.org/)

[COP26 and the journey to net zero - How to play your part \(on24.com\)](https://www.on24.com/)

Keeping the LGPS Connected webinar: National LGPS frameworks

<https://event.on24.com/wcc/r/3460134/38215D8E19CBE7C1F11C9D6FD5796381>

Webinar: Building a more diverse and inclusive future

<https://event.on24.com/wcc/r/3359394/32F05B40866D4EE7E19840B379A570A5>

[Breakout session 1: Tackling barriers to social mobility within organisations and the wider market \(3365325\) \(on24.com\)](https://www.on24.com/)

[Breakout session 2: The Power of data in addressing inequality \(3365349\) \(on24.com\)](https://www.on24.com/)

[Breakout session 3: Steps to creating an inclusive environment \(3365358\) \(on24.com\)](https://www.on24.com/)

Accounting round-up

[Cover.qxd \(frc.org.uk\)](https://www.frc.org.uk/)

[Understanding your LGPS accounting disclosures \(3407201\) \(on24.com\)](https://www.on24.com/)

The politics of climate change

[Pension stewardship and COP26 \(parliament.uk\)](https://www.parliament.uk/)

[Pension scheme investments and climate change - House of Commons Library \(parliament.uk\)](https://www.parliament.uk/)

Pensioners in the news

[Investigation into the underpayment of State Pension \(nao.org.uk\)](https://www.nao.org.uk/)

Summit to talk about

[LGC Investment & Pensions Summit | The LGC Investment & Pensions Summit \(lgcplus.com\)](https://www.lgcplus.com/)

<https://www.hymans.co.uk/insights/blogs/blog/avoiding-the-flaw-of-averages-in-your-lgps-actuarial-valuation/>

UK life expectancy: feeling the impact of 2020

[Home | Club Vita - Longevity Analytics | Club Vita](https://www.clubvita.com/)

[Life expectancy across the UK | Club Vita](https://www.clubvita.com/)

No such thing as a free lunch!

[Academies and Local Government Pension Scheme liabilities - GOV.UK \(www.gov.uk\)](https://www.gov.uk/)

Upcoming industry events

[Home | LGC Investment Seminar Scotland \(lgcplus.com\)](https://www.lgcplus.com/)

[Room151's LGPS Investment Forum - LGPS Delegate Registration - November 16th 2021, London Stock Exchange Survey \(surveymonkey.co.uk\)](https://www.surveymonkey.co.uk/)

In brief...

[Guaranteed Minimum Pension Fixed Rate Revaluation - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

[Chancellor launches vision for future public spending - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

[CCM_RESPONSE.pdf \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)