



LOCAL PENSION BOARD – 7 FEBRUARY 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND CONTINUOUS IMPROVEMENTS REPORT

Purpose of the Report

1. The purpose of the report is to provide a regular update to the Local Pension Board regarding progress in respect of areas of identified improvement within the Pensions Section.

Background

2. The Continued Improvements and Systems team has been created to assess and improve existing processes, maximising the use of technology, whilst exploring other areas including tenders, new legislation, governance and data quality. Appendix B has been provided to cover the areas of improvement to be addressed, but the key developments since last quarter are provided in more detail below.

McCloud Update

3. Officers are now dealing with McCloud remedy cases as part of their 'Business as Usual' processes after the new functionality was switched on from 13 November 2023. Areas mainly affected by this are estimates, retirements and deferred benefits. The length of time taken to process these cases appears to be longer, though it is too early to be able to provide meaningful statistics on the full impact.
4. Initial findings are that very few cases have had an increase applied to their benefits. During the period 13 November to 19 December 2023, only five members' pensions increased out of 181 members who were deemed 'in-scope' for the McCloud remedy.
5. Many transfers are currently on hold whilst systems providers await national guidance to allow updates to the processes.
6. Altair is processing most cases correctly, though some errors have been identified and have been reported to Heywood. One particular error results in

Altair calculating an additional amount of pension for some cases. Correcting this requires a manual workaround which impacts on the time taken to process cases. Officers are working with Heywood to identify the best way to resolve this issue and an updated version of Altair was installed into the 'test' environment in early January to assist with these cases.

7. Heywood continue to offer weekly 'drop-in' sessions to funds to enable discussion regarding issues that users have identified.

LGA

8. The Local Government Association (LGA) have issued an initial version of their 'McCloud LGPS Administrator Guide'. The content includes worked examples of retirement and death cases based on what is known currently. There are gaps in respect of transfer calculations where national guidance from the government actuary department (GAD) is awaited.
9. The LGA also hosted a series of online McCloud 'surgeries' for administering authorities in December to coincide with the release of the guide.

Internal Processes

10. Officers circulated an internal 'Employer Bulletin' to scheme employers on 26 October 2023 that requested employers to make their scheme members aware that information regarding McCloud had been posted to the pension website.
11. Also added to the website is a form that enables scheme members not currently in-scope to declare any public service pension scheme membership that has not been transferred to the Leicestershire fund. This will allow officers to investigate whether the member can be treated as in-scope.
12. Scheme members affected by McCloud have also been contacted directly with details of the remedy. Officers emailed members on 6 December where an address was recorded and those members who had previously advised that they wished to receive paper correspondence were written to on 11th December 2023.
13. The requirement for LGPS funds to carry out McCloud remedy work in respect of members of the Teachers Pension Scheme (TPS) who have 'excess service' was originally referenced in the McCloud Remedy progress report presented at the Board meeting on 8 February 2023. In December 2023, TPS contacted funds regarding this. They will contact employers throughout 2024, liaise with them to identify affected members and verify details of their service before data is sent to LGPS funds for action.

14. East Midlands employers are scheduled to be contacted in June, and a further update on this will be provided at a future Board meeting.

Records Update

15. Officers continue to update member records with details of changes to contractual hours, either manually or via system automation, and the latest position regarding updated records is below. Note that the latest numbers have increased overall since the previous position as a number of additional employers, with only non-active members, i.e. deferred or pensioners, being added to the project.

	Position as at 12/12/2023	Position as at 14/09/2023
Number of employers that have provided all required data and records have been updated:	99	89
Number of employers that have provided all required data and are currently being worked on:	4	7
Number of employers that provided all required data and are ready to be worked on:	108	76
Number of employers that provided all required data but has been returned to the employer:	0	2
Number of employers that have provided some of the data, or have not provided any data:	62 (11 employers have provided some data, 51 employers have not provided any data)	25
Employers with miscellaneous issues:	0	0

16. Details of the number of data lines identified as unsuitable for automatic loading are below. This data only relates to employers where all data has been provided and has either been completed or is a work in progress. These figures are not the final amount and will increase as the project progresses. However, the amount that these figures will increase by cannot be quantified at this stage.

Employer	Lines identified at 12/12/2023	Lines dealt with at 12/12/2023	Lines remaining at 12/12/2023
Leics County Council	5,193	1,777	3,416
Leicester City Council	18,455	18,455	0
EMSS Academies	10,901	0	10,901
Other Employers	15,498	15,498	0
Total	50,047	35,730	14,317

Pension Dashboard Project

17. The Local Government Association (LGA) issued a draft version of their Pension Dashboard Connection Guide on 6 November 2023. The guide is intended to help identify the steps funds need to follow to connect to dashboards and provides a synopsis of each aspect, with a link to more detailed information available online. It also includes a 'Preparing to Connect' checklist for officers to work through.
18. On 14 November 2023 during their online connection forum, the Pension Dashboards Programme (PDP) advised that the proposed staging date for public service pension schemes will be within the period of one month up to 30 September 2025.
19. This will be subject to confirmation once the final staging guidance is published in Spring 2024. Regulation 15(2) of the Pensions Dashboards Regulations 2022 confirms administering authorities have a legal duty to have regard to this guidance.

AVCs and Dashboards

20. On 19 December, the National LGPS Technical AVC sub-group met with Prudential to discuss how to approach AVCs and Dashboards. The meeting concentrated on what was established as 'pre-dashboard' work, specifically how to reconcile member records held on both LGPS administration and Prudential's LGPS systems and to agree a process for reconciling this data.

Leicestershire have agreed to work with West Yorkshire and Prudential to develop this process with the aim of this being approved at the National LGPS Technical Group meeting on 8 March 2024.

21. Prudential agreed to provide a depersonalised matching criteria report and a subset of this will be used to form the matching criteria. Officers were expected to begin work on this exercise in January 2024.

AVC Framework Update

22. Further to the report presented at the last Board meeting, Officers have continued to work with National LGPS Frameworks (administered by Norfolk County Council) to establish an AVC tender framework for use by LGPS funds.
23. On 23 November 2023 an Invitation to Tender document was finalised, uploaded and providers were invited to submit applications. The deadline for submissions is 16 January 2024.
24. Following the deadline, submissions will be provisionally marked by each authority. Group moderation sessions will then be conducted at the end of February. If required, final interviews with the providers are scheduled for early March.
25. The launch of the framework is still scheduled for late March 2024. An update will be included in this report at the next meeting.

Pensioner Payroll

26. New functionality was installed into the Altair pensioner payroll system on 25 October 2023. This has brought two main benefits to administrators.
27. Firstly, the level of automation has increased in respect of the creation of new pension payroll records following a retirement. Previously, a new record had to be manually created after the pension benefits were calculated, which increased the risk of error and required a higher degree of checking.
28. Secondly, an arrears calculator has also been installed. Previously, when a new pensioner was processed after their retirement date, a manual calculation was required to pay any arrears that were due, which would require checking. This process is now automated and officers are satisfied that this is working well. Arrears calculations are now only spot-checked, which has reduced checking time.
29. Existing retirement and death processes will now be reviewed to ensure that the benefits from the new functionality are being maximised along with recent developments relating to the Altair workflow system. Officers from payroll and

pensions are scheduled to meet at the end of January for a broad discussion covering the existing processes and then aim to identify areas where changes can be made.

30. Updates in respect of the review will be included in future Board reports.

Valuation Planning

31. Preparations for the 2025 fund valuation are already underway. A timeline has been agreed with the actuaries and is shown at the end of this section.

32. Officers requested that Hymans Robertson, the Fund's actuary provide a mid-valuation funding position, assessing progress since the last valuation and to provide a guide on the likely outcome at the 2025 valuation. Their calculations have indicated an improving funding position for the majority of employers, though it must be recognised that a mid-valuation exercise is not as thorough as a full valuation exercise and that any funding update is only a snapshot in time.

33. Work has begun prioritising outstanding casework to ensure that data is as accurate as possible prior to final valuation calculations. For ease of administration, the initial focus will be the cases relating to the larger 'stabilised' employers, which tend to be the larger employers who have tax-raising powers, for example, District Councils. Data in respect of these employers will be submitted to Hymans in September 2024.

34. Focus will then turn to the remaining employers in 2025.

35. Data cleansing work continues for all employers before data is submitted to the actuaries. The latest figures relating to the regular cleansing work can be found in Appendix B of this report.

36. Further updates on valuation preparations will appear in future Board reports.

Date	Topic	Action or Awareness
December 2023	Mid-valuation funding update	Committee
September 2024	Provide Hymans with stabilised employer data	Pension Section
September/October 2024	Calculate indicative stabilised employer rates	Hymans
November 2024	Agree principles for the 2025 assumptions.	Committee
March 2025	Results of the stabilised employer modelling	Committee

April 2025	Provide the stabilised employers with their indicative rates. 1 April 2026 to 31 March 2029	Pension Section/Stabilised employers
June 2025	Agree final valuation assumptions.	Committee
August 2025	Provide Hymans with all Fund data	Pension Section
July/September 2025	Review selected employer's financial health	Pension Section
September 2025	Calculate Fund results	Hymans
September/October 2025	Whole Fund valuation results	Committee/Board
October/November 2025	Provide the other employers with their indicative rates. 1 April 2026 to 31 March 2029	Pension Section/Fund employers
December 2025	Changes to Fund Funding Strategy Statement and Investment Strategy Statement	Pension Section/Fund employers
February 2026	Funding Strategy Statement and Investment Strategy Statement	Committee/Board
March 2026	Final valuation report produced with final employer rates	Hymans
April 2026 to March 2029	Employer rates implemented	Pension Section/Fund employers

General Code of Practice

37. On 10 January 2024, The Pension Regulator's General Code of Practice was laid before Parliament. This brings together ten existing codes of practice into a single set of clear, consistent expectations on scheme governance and administration. Many of the standards in the new code are taken from the existing codes. However, some of the requirements are new.
38. Officers will work with Hymans Robertson to identify the new areas and set out a plan to ensure that the Fund is compliant.
39. The code is expected to come into force in March after the existing codes have been revoked. Further information in respect of the code will appear in a future Board report.

Access to Annual Benefit Statements

40. During a discussion raised at the Board meeting of 18 October 2023, a question was raised regarding whether it was possible to report on the number of scheme members who access their Annual Benefit Statements through Member Self Service.
41. Whilst the website is linked to Google Analytics, which does allow for this level of scrutiny, it is currently not possible to report on this facility (or any other area on the website) without having a cookie page banner installed. The banner notifies users that cookies are collected and gives them a choice to accept, reject or choose specific cookies to be collected. Cookies are small files that store data relating to the browsing activities of web users.
42. It is expected that the next generation development of Member Self Service will include cookie banners as standard. Once this version is installed and developed then Officers will be able to report on this facility.

Wider Topics for 2024/25

43. This is a new section designed to inform the Board of some of the wider issues currently within the LGPS.

LGPS Investments Changes

44. Following a consultation, the government have announced their intention to make changes to legislation relating to LGPS investments.
45. The changes include plans to accelerate LGPS 'pooling' and funds should transfer all liquid assets to their pool by 31 March 2025, setting out in their Investment Strategy Statement which assets are pooled and providing the rationale and date for review if not pooled.
46. The government instigated the pooling of pension funds in 2015 with the publication of criteria and guidance on pooling of LGPS assets. Administering Authorities formed their own groups. Leicestershire are a member of LGPS Central. The scale of each pool gives significant buying power in the investment market, that would not normally be accessible to individual funds.
47. The other changes include:
- Invest up to 5% of assets to support levelling up in the UK and report annually on progress against the plan.
 - Increase investment into high growth companies via private equity.

- Drive greater scale through fewer pools. The proposed approach included setting a long term direction towards fewer pools to deliver scale of at least £50 billion of assets under management.

Scheme Advisory Board Statement on Surpluses

48. The Scheme Advisory Board (SAB) has issued a [statement on funding surpluses](#), designed to assist administering authorities manage surpluses within their own funds. There are four key areas in the statement:
49. *Stability of contribution rates*: The statement emphasises the importance of stability in employer contribution rates, which helps employers with financial planning and breeds confidence in the scheme's sustainability. However, it also acknowledges the challenging financial position scheme employers find themselves in.
50. *Tailored employer investment strategies*: The statement acknowledges that there is an increased interest from some employers to influence investment and funding strategies. It also notes the additional resource and resulting increased costs that would be required to tailor individual investment strategies and considers if tailoring might be appropriate for certain groups of employers, for example, those heading towards an exit.
51. *Partial terminations*: Some employers have suggested exiting a fund for deferred and pensioner members whilst remaining a participating employer for active members. This would lock in costs for deferred and pensioner members, with no recourse for the employer in question to pay towards those liabilities in the event of adverse future changes, leaving other employers to pick up the cost. Funds should ensure that the approach is consistent with regulations and consider the best way to manage employer risk.
52. *Contribution rate reviews between formal valuations*: The regulations allow funds to review an employer's rate where there has been a significant change to its liabilities or covenant. Circumstances for any review should be covered in the Fund's funding strategy statement. Changes in funding positions due to market movements since the last valuation will not be sufficient to trigger a review.
53. Officers have considered the statement and are confident no changes are necessary at this time, but employer rates and the overall funding value will be considered as part of the next Fund valuation and will form part of the wider valuation discussion with Hymans.

Sharia Law and the LGPS

54. Following questions from numerous funds regarding whether LGPS investments are Shariah compliant, SAB sought Counsel on this issue. They advised in May 2022 that a discrimination claim was possible, or even a broader human rights-based challenge in the civil courts. Counsel also suggested that if it were clarified that alternative pension provision could be offered that this most likely would not be limited to Muslim employees who opt out of the LGPS by reason of their religious beliefs.
55. Following this advice, SAB commissioned an Islamic finance expert to produce a report on Sharia Law and the LGPS, which would address any possible legal risks for scheme employers and to ensure the scheme is inclusive as possible. It was confirmed at the National Technical Group on 8 December 2023 that the advice given was that the LGPS is compliant with Islamic beliefs because pension contributions are treated as deferred pay.
56. SAB will now go back to Counsel for a follow-up opinion and will consider this advice alongside the report, which will be published on their website shortly.

Recommendation

57. It is recommended that the Board notes all areas of the report.

Equality and Human Rights Implications

58. None specific.

Appendices

59. Appendix A: MSS Registration Figures
Appendix B: Areas of improvement

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