CLWYD PENSION FUND COMMITTEE	
Date of Meeting	Wednesday 27 November 2024
Report Subject	Update on National Developments
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The purpose of this report is to update the Committee on the outcomes of the Autumn Budget, and the latest position on the Government's Pension Review, following the Chancellor's Mansion House speech on 14 November 2024.

Autumn Budget

- The Chancellor delivered the Labour Government's first Budget on 30 October 2024. The focus was a package of tax increases amounting to more than £40 billion (including increases to Employer's National Insurance Contributions and Capital Gains Tax and changes to the way Inheritance Tax will be assessed).
- The budget also confirmed that the assets and liabilities of funded public service pension schemes, including the LGPS, will be added to the Government's balance sheet and will see public debt being measured by Public Sector Net Financial Liabilities (PSNFL) going forwards, instead of Public Sector Net Debt (PSND).

Pension Review

- Following on from the Chancellor's Mansion House speech on 14 November 2024, alongside the Government publishing its interim report on Phase One of the Pensions Investment Review, a 9 week consultation was published by MHCLG for the LGPS titled "Fit for the future".
- The Government is seeking views on proposals relating to LGPS investments and covers areas of asset pooling, UK and local investment, and governance.
- The Government's view is that assets under management need to be larger than the existing pools in order to deliver efficiency of scale. It may result in the number of existing pools reducing through pool mergers, an idea which is mentioned in the Consultation. The Consultation notes that as the WPP operates within a devolved nation, and that it may "make sense" for the Welsh LGPS funds to continue as a separate pool, albeit it also mentions the need for pools to be FCA regulated and for 100% of assets to be transitioned by March 2026.

A workshop has been scheduled for after the Committee meeting to discuss the way forward with the Pensions Review.

RECOMMENDATIONS	
1	That the Committee note the report and the various areas that will need to be considered further.

REPORT DETAILS

1.00	2024 Autumn Budget and Pensions Review Update
1.01	**2024 Autumn Budget** The Chancellor delivered the Labour Government's first Budget on 30 October 2024. The focus was a package of tax increases amounting to more than £40 billion (including increases to Employer's National Insurance Contributions and Capital Gains Tax and changes to the way Inheritance tax will be assessed). The budget also confirmed that the assets and liabilities of funded public service pension schemes, including the LGPS, will be added to the Government's balance sheet and will see public debt being measured by PSNFL going forwards instead of Public Sector Net Debt (PSND). These points are considered in more detail below. **Inheritance Tax** Despite speculation in the lead up to the Budget, the biggest pension-related change is that from 6 April 2027 most unused pension funds and death benefits will form part of an individual's estate for Inheritance tax purposes. The Government's intention is to align their tax treatment with other types of inherited assets and remove the incentive to use pensions as a tax-planning vehicle for wealth transfer after death. The new measures will cover payments from registered pension schemes following the death of a member where the recipient is not the spouse or civil partner. The Government plans to bring all death benefits from these types of schemes within scope, with the exception of dependants' scheme pensions and charity lump sum death benefits. The Government has confirmed that all life policy products purchased with pension funds or alongside them as part of a pension package offered by an employer will not be in scope. This may mean that separately insured lump sum death benefits are out of scope. The Government has published a consultation on the technical aspects of how pension scheme administrators (PSAs) will report and pay any inheritance tax due on unused pension funds and death benefits from 6 April 2027. These responsibilities currently sit with personal representatives (PRs) thus increasing the burden on PSAs. PSAs and PRs will be required to share information with one other including notification of death and sharing of details of unused pensions. The consultation runs until 22 January 2025. The consultation is limited to the implementation of the new regime, rather than whether to implement it and what benefits should be in scope. The Fund is currently considering its own response to this consultation, whether this will be a stand-alone response or as part of a combined response prepared alongside other LGPS administering authorities. The

	consultation response will be completed under urgency delegations given the January deadline. Depending on the outcomes of the consultation, systems and process will require updating and officers trained on the new rules and implications for members. Member communications (whether direct or via the website) will also need to be updated, in particular a recommendation for members to review their expression of wish forms on a regular basis. **Public sector net financial liabilities (PSNFL)** The budget also confirmed that the assets and liabilities of funded public service pension schemes, including the LGPS, will be added to the Government's balance sheet and will see public debt being measured by PSNFL going forwards instead of Public Sector Net Debt (PSND). This means that LGPS funding levels will form part of the assessment of PSNFL and will be assessed as part of the five-yearly election cycle. At a time when funding levels are already at an all-time high across the Scheme as a whole, continuation of these levels over the coming years will ultimately help to reduce the UK's debt level. **Increase to Employer's National Insurance** The Budget also saw an increase in the level of National Insurance Contributions payable by employers although this is expected to be funded by HMT for public sector bodies. The level of Government funding increase for the sector will be an important consideration of contribution affordability for Councils although it is unlikely the employers will have clarity on this until the next Spending Review in March 2025. For employers who will not get the NI increase funded, affordability will be impacted and will be part of employer contribution discussions. This will be considered within the covenant assessments of employers as part of the valuation process.
1.02	**Pension Investment Review** The Government published its interim report on phase one of the Pensions Investment Review on 14 November 2024, following on from the Chancellor's Mansion House speech. In tandem with this, MHCLG published an open consultation on reform of the LGPS with a closing date of 16 January 2025. This follows on from the Call For Evidence issued by the Government in September (the Fund's response to which can be found in Appendix 1). Details of the speech are available in this link: Mansion House 2024 speech - GOV.UK **<u>Summary of changes announced</u>** The speech focused on the UK's financial services sector, and the LGPS element of it was limited. The topic of private sector defined contribution (DC) pensions took most of the pensions-related airtime and are clearly

	where there is considerable scope for consolidation. It remains to be seen whether this change impacts any plans for pensions dashboards. It appears new legislation for DC funds aims to enable smaller funds to invest in a wider range of assets including large infrastructure and private equity projects, as well as endeavouring to achieve better outcomes for the members of those schemes. While the LGPS only got a short mention in the speech, a detailed consultation has been published which will explore the Government's key areas of focus in more detail. The consultation builds on the findings of the July 2024 Pensions Investment Review, the report of which was also published: Pensions_Investment_Review_interim_report.pdf. Ahead of the speech, there was a lot of speculation around what would be included. Based on the actual speech, the Consultation published shortly afterwards and the Government's associated press release, initial observations are that: • The Consultation proposes that the pools would need to be regulated by the Financial Conduct Authority (FCA) going forward. This is set out in the Consultation, along with a number of other proposed mandated minimum standards. Currently three of the pools are not set up this way: Wales Pension Partnership ("WPP"), Northern and ACCESS. • The Consultation notes that as the WPP operates within a devolved nation and has separate partnerships with the Welsh Joint Committees, it may "make sense" for the Welsh LGPS funds to continue as a separate pool. • While the Government recognises some of the key successes in pooling to date, their research suggests that assets under management need to be larger than the potential size of some of the 8 existing pools in order to deliver the "megafund" outcomes they are seeking. It may evolve that the 8 in existence currently will reduce in number through pool mergers, an idea which is mentioned in the Consultation but by no means mandated. At this stage the Consultation focuses on the ways in which the pools are set up and managed rather than reducing the number of pools. • The speech and Consultation propose that LGPS funds will be required to pool **all** their assets (including legacy private market assets) into these pools, and make the other required pooling changes, all by 31 March 2026. This is a stronger stance than has previously been in place. • Whilst Administering Authorities would remain responsible for setting an investment strategy for their fund, they would be required to fully delegate the implementation of that strategy to the pool, and to take their principal advice on their investment strategy from the pool. • For now at least, merger of individual LGPS funds does not appear to be a focus for the government and there are no specific questions on this in the Consultation. However, in the Introduction section of the Consultation the government recognises "friendly"

mergers have had good outcomes and encourages funds to consider if this could benefit them.

- It would appear that the actions from the Scheme Advisory Board's "Good Governance" review will be progressing in 2025, with a key focus to improve investment outcomes, although the proposals set out in the Consultation cover all areas of governance and we provide a brief summary of this below.

Consultation

The LGPS consultation relating to England and Wales only, has a nine week window, closing on 16 January 2025. The link to the consultation is here: Local Government Pension Scheme (England and Wales): Fit for the future - GOV.UK

The proposal and questions are included in Appendix 2.

The consultation lists 18 proposals under the three areas of LGPS pooling, Local investment and Governance of funds and pools.

The proposals are summarised below:

- Setting minimum standards for investment pools, including:
    - Full delegation of implementation of strategy to the pool
    - Pools providing strategy advice to the administering authorities
    - Pools required to be authorised and regulated by the FCA

- Setting requirements for local investment, including:
    - Setting a target range for local investment
    - Working with relevant authorities to identify local opportunities
    - Pools to carry out due diligence and make decisions on whether to invest in those opportunities

- Improving governance
    - Minimum requirements for Committee member knowledge and skills
    - Implement other recommendations from the Good Governance Review, including requirement to appoint a senior LGPS officer and carry out an independent governance review every two years
    - Requirements around representation and transparency of pools

This is a comprehensive consultation with 126 paragraphs and 30 separate questions to answer. It is somewhat disappointing to see the term "fragmentation and inefficiency" used again in the introductory statements with regards to the LGPS.

A critical point to note is that each pool is invited to demonstrate a clear path to meeting the requirements outlined in the Consultation by 1 March

	2025, detailing how the Pool will deliver the proposed pooling model and complete transfer of legacy assets to the pool (including views of the costs, timeline and potential barriers and solutions) including commenting on the viability of doing this by the 31 March 2026 deadline. This is expected to be particularly challenging for the Administering Authorities in non-FCA regulated pools, as is the case for WPP.
	
	Given the current structure of the WPP and the proposed changes to how investment decisions will be reached and implemented, there are obviously a number of implications on the Fund and the way its investment and wider Responsible Investment objectives will be achieved going forwards.
	
	The Fund will need to ensure that the governance requirements set out in the consultation are met. However, given the Fund is already aligned with the Scheme Advisory Board's Good Governance recommendations many of those requirements set out in the consultation have already been achieved (coupled with the work the Fund has been undertaking on the TPR's General Code compliance).
	
	<u>Next Steps</u>
	
	Careful consideration will need to be given by officers (with support from WPP, and advisors) on how the Fund responds to this consultation and what input is given to the proposal WPP have been invited to submit. At the same time, consideration will also need to be given to what messages are communicated to members/employers and other stakeholders given the period of uncertainty that is likely to lie ahead.
	
	The Fund intends to respond to the consultation and the response will need material input from officers and committee as well as advisers over the coming weeks given the critical nature and far-reaching consequences for the Fund and its employers/members.
	
	The Committee are reminded that, at the September Committee meeting, it was agreed that responding to consultations relating to the Pensions Review which are out of the Committee cycle would be delegated to the Head of Clwyd Pension Fund, subject to:
	• all draft responses would be issued to Committee members to provide any comments so that they could be incorporated
	• if officers or the Committee consider that the issue requires more attention than an email, a Special Meeting may be called.
	
	A workshop has been scheduled for the afternoon of this Pension Fund Committee meeting to discuss the way forward including consideration of the following:
	
	• Impact on the Fund's funding and investment strategy, including the need to be in an FCA regulated pool and the requirement to be 100% pooled. This will have an impact on the following;
	    o Employer Contributions
	    o Implementing the Responsible Investment Policy
	    o Legacy Assets (that have not yet been pooled)
	• Understanding the options on the future pooling model

	• Committee/Council involvement in decision making given the short timescales • Overall impact on the business plan of the Fund (including resourcing and administrative burden).

2.00	**RESOURCE IMPLICATIONS**
2.01	Response to the consultation, preparing the plan for future pooling and implementing changes as a result of the outcomes will have a major impact on the work of the CPF officers, particularly the Senior Management Team, as well as the need for additional advice which will likely result in unbudgeted advisor costs.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	There will be a need for close working with the other Constituent Authorities within WPP and consulting with Flintshire County Council (as Administering Authority for Clwyd Pension Fund) in relation to the response.

4.00	**RISK MANAGEMENT**
4.01	Two of the risks on the Fund's risk register have been increased in score and are now red (one on governance and one on investment funding) as a result of this review. Given the length and depth of the consultation, the complete risk register will reviewed again once the consultation has been considered in more detail. As part of this review all risks will be considered and we expect that some others will increase in score.

5.00	**APPENDICES**
5.01	Appendix 1 – Clwyd Response to Call For Evidence Appendix 2 – Consultation Proposal and Questions

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **Actuarial Valuation** – A formal assessment of the Fund's financial health, determining employer contribution rates to cover benefits and address any funding shortfalls, as detailed in the Funding Strategy Statement. (b) **Actuary** – A financial risk specialist advising pension funds, primarily responsible for setting employer contribution rates through the actuarial valuation process. (c) **Administering Authority / Scheme Manager** – The authority managing the Fund, responsible for its oversight and stewardship. For Clwyd Pension Fund, this role is held by Flintshire County Council. (d) **AP – Advisory Panel** – a group comprising of the Flintshire County Council Chief Executive and Corporate Finance Manager, the Head of the Clwyd Pension Fund, Fund Consultant, Actuary and Independent Advisor for Fund management. (e) **Department for Levelling Up, Housing & Communities (DLUHC)** – The UK Government department supporting community development and local governance. (f) **FRC – Financial Reporting Council** – The UK and Ireland's regulator for auditors, accountants, and actuaries, responsible for corporate governance standards. (g) **FSS – Funding Strategy Statement** – The key document outlining the strategy for managing employer contributions to the Fund. (h) **FRMG – Funding & Risk Management Group** – A subgroup of Fund officers and advisers set up to discuss and implement any changes to the Risk Management Framework as delegated by the Committee. It is made up of the Head of the Clwyd Pension Fund, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser, and Investment Advisor. (i) **In-House Investments** – Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture, and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG. (j) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. (k) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (l) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from Mercer, the Fund Consultant. (m) **The Committee – Clwyd Pension Fund Committee** – the Flintshire County Council committee responsible for most decisions relating to the management of the Clwyd Pension Fund

	(n) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (o) **WPP – Wales Pensions Partnership** – The WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. WPP has appointed an Operator to manage assets collectively for the eight Wales LGPS funds. A proportion of the Clwyd Pension Fund assets are invested via WPP. A full glossary of Investments terms can be accessed via the following link. **https://www.schroders.com/en/global/individual/investment-glossary/**