

Local Government Newsletter

June 2021

We hope you enjoy this month's newsletter, which brings you updates on TCFD and the Cost Management review and the consultation by HMT, and an invitation to our training webinars.

People News

This month we congratulate Jonathon Wycherley on his 15 year anniversary at Aon, and Catherine Pearce, Imla Ikram and Christine Swain on their 5 year anniversaries at Aon. We look forward to working with them for many years to come!

Industry developments

Pension scams

Following our long article on this last month, a few updates on pension scams. In particular, LGA has published their [response](#) to the consultation on pension scams. Aon have also responded to the consultation, broadly welcoming it but raising some comments and concerns around the "amber flags" stage of the process, and in particular the difficulties in identifying and assessing them.

Report from the House of Commons Public Accounts Committee

The [report](#), issued on 11 June, sets out a number of recommendations and conclusions that are generally critical of HM Treasury, including highlighting the impact of increasing employer contributions on the ability to deliver frontline services, and the potential cost of the McCloud judgement arising from age discrimination that should have been foreseen.

It recommends that HM Treasury should:

- set out how it makes trade-offs between its objectives for public service pensions;
- give employers more notice and wider support in respect of changes in contribution rates (eg due to changes in the SCAPE rate);
- do more to ensure people understand the value of pensions, including undertaking a review of take-up of public pensions;
- collect and analyse data regarding differences in average pensions between genders and other groups;
- work quickly to resolve the challenges of the McCloud judgement and cost management;
- evaluate the 2011-2015 reforms to ensure it is on track to meet its objectives.

Pension tax reform

Prior to the Spring Budget, the Treasury Committee published a report, as part of its inquiry into Tax After Coronavirus, calling for pension tax reform. The government has now [responded](#), ruling out any immediate changes to pension tax relief. This is despite various press reports that the Treasury is planning significant pensions tax changes in the Autumn Statement. These are reported to include reforms to the way pension contributions are taxed and/or a further reduction in the Lifetime Allowance, to £900,000 or £800,000.

CIPFA: Technical Knowledge and Skills Framework

Mary Lambe, a senior benefits and governance consultant, and Karen McWilliam (Head of Public Sector Governance and Benefits), have worked with the Chartered Institute of Public Finance and Accountancy (CIPFA), giving technical advice on revisions to the 'Knowledge and Skills Framework for LGPS Committee Members and LGPS Officers' as well as updating the corresponding Code of Practice, which were published on 28 June. The new framework brings older frameworks for elected representatives, non-executive members and pension practitioners together into a new single updated document for all committee members and senior officers. The Code establishes the minimum standards required of all CIPFA professional members who are expected to comply with its requirements across England, Wales, Scotland and Northern Ireland.

The updates to the competencies allow for recent changes in the LGPS, including the oversight role of the governance and administration by the Pensions Regulator, asset pooling and an increased focus on responsible investing, to name just a few. Please contact CIPFA directly to get a copy of the revised Code and Framework.

The updated documents reflect the increasing need for knowledge and skills with all parties involved in the management of the LGPS as well as with the management of their training requirements.

Aon offers [training](#) covering the new competencies which can be [booked now](#).

Section 13 report

We understand that publication of GAD's report on the 2019 valuations has been delayed until September (after the summer recess). However, we still hope that a draft will be available shortly.

SCAPE discount rate

The Government has just released a consultation on the [discount rate methodology](#), which is used for valuations of the unfunded schemes. This looks to change the methodology to better reflect the proposed three aims of the SCAPE rate giving a fair reflection of costs, a reflection of future risks to Government income, and stability.

The consultation looks at two different methods for setting the SCAPE rate, based on expected GDP growth (the current method), or changing to the social time preference rate which is currently used by government to appraise projects and appears to be the old method of 3.5% real (i.e. 3.5% above the CPI Inflation assumption).

It also looks at some possible modifications to both of these methods.

Further, the consultation suggests aligning the SCAPE rate review with the 4 yearly valuation cycle of the unfunded schemes.

The SCAPE rate is also used for certain factors (transfers, early retirement), and the consultation document states that if the SCAPE rate is changed a decision would need to be made whether to continue using the SCAPE rate to set those factors.

What we've been talking to our clients about MHCLG Consultation on TCFD

The DWP has published its response to the consultation on TCFD reporting for pension schemes and also published draft regulations for consultation over the period to 10 March 2021.

The Task Force on Climate-related Financial Disclosures ("TCFD") framework establishes a set of eleven clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. These disclosures are centred around four 'pillars' – Governance, Strategy, Risk Management, and Metrics and Targets. The increased transparency encouraged through the TCFD recommendations is intended to lead to decision-useful information and therefore better informed decision-making on climate-related financial risks.

We expect that, following consultation this year, the LGPS will be required to begin publicly reporting under the TCFD framework – this would establish a common position across the private and public sector pension funds in the UK. It is anticipated that the requirements will be substantively the same.

Developing your climate strategy is likely to begin with establishing collective beliefs following training and support in understanding the key issues. This can be followed with analysis of climate risks and opportunities across asset classes, undertaking climate scenario analysis, and developing understanding of relevant metrics and targets. All of this precedes preparation of the TCFD report itself, and it is therefore important to have adequate time to build the requisite knowledge in good time.

There are likely to be areas where your pool can provide input; depending on your own arrangements, these areas may differ by fund and pool. Similarly, liaison with your asset managers (which may be outside the pool) is likely to be required.

Stakeholder communication is an important consideration for the LGPS in particular: there are likely to be many interested parties who are keen to understand how Funds are assessing and disclosing the risks and opportunities posed by climate considerations, and therefore considering the accessibility of the final report to lay stakeholders is a key element to its preparation.

Aon works with a range of funds in the public sector through all stages of their TCFD journey. Whether you already report under TCFD voluntarily and are interested in how this could evolve and improve, or whether you are at the very beginning of your journey and need help with understanding TCFD and climate risk as a whole – we can help you, and would be delighted to do so.

Cost Management Mechanism

Following on from the initial results of the 2016 mechanism, HM Treasury asked GAD to review the mechanism to see if it was working as intended.

GAD concluded that the mechanism fails to meet a number of the key objectives, commenting that it can lead to intergenerational unfairness and result in perverse outcomes such as an increase in benefits to members whilst at the same time having to increase employer contribution rates. GAD recommended HMT consider a number of options for change. We recently [released](#) our comments on and summary of GAD's report.

HMT have now responded to GAD's report by releasing a [consultation on changes to the cost management mechanism](#), which runs for 8 weeks to 19 August. These changes are proposed to take effect from the 2020 cost management valuations, so the 2016 valuation would run as originally intended. HMT proposes making three changes (all of which come from recommendations in GAD's report):

- To remove any allowance for the legacy (i.e. final salary) schemes in the mechanism (although they propose to continue to include past service in respect of the 2014 / 2015 schemes in the mechanism)
- To widen the corridor beyond which a breach occurs from 2% of pay to 3% of pay.
- Add an "economic check" so that changes will only be implemented to the benefits if the breach of the corridor would still have occurred had the changes in economic assumptions been considered.

Widening the corridor will reduce the chances of any breach, and the "economic check" will reduce the possibility of a situation similar to the 2016 review where a change in the SCAPE rate led to increases in contribution rates for the unfunded schemes at the same time as the cost management mechanism indicated an increase in benefits and hence further increase in contribution rate was required.

In the short term, removal of the legacy schemes will reduce the chances of a breach due to experience on past service (and in particular removes the impact of salary increases completely). However, as past service in the new schemes increases, the possibility of large changes being required to future benefits due to experience on past service will increase. HMT has however reserved judgement on how changes to longevity improvements should be reflected in the mechanism, which GAD had suggested could be removed from consideration (due to normal pension age being linked to State Pension Age), or otherwise smoothed over a longer period to reduce volatility in cost. MHT say they will 'consider these recommendations on longevity to longer timescales'.

HMT also gave reasons for rejecting some of GAD's other reform options, including:

- moving to a future service only design - it was considered this would pass too much risk to the Exchequer, and limit the Government's ability to respond to future events.
- application of a subjective overlay when there is a breach – it was considered this would reduce transparency, and the other proposals should reduce the likelihood of a breach arising to acceptable levels without this addition stage.

In addition, for the LGPS, the removal of the pre 2014/15 benefits from the process will have slightly less impact than for the unfunded schemes, due to the way the McCloud judgement is being implemented via an underpin in the new scheme.

Upcoming events

Earth, Wind, and Fire: Considering & communicating on climate risk - 12 July 2021

This educational webinar for LGPS Fund Officers, Pension Committee and Local Pension Board members aims to:

- contextualise the scale of the climate challenge that faces LGPS funds
- explain the impact of the anticipated MHCLG proposals regarding climate – related disclosures
- help you consider how to invest, engage, report and interact with your pension fund members on Climate Change and Responsible Investment matters.

If you would like to join the webinar on 12 July 2021, please sign up [here](#).

Committee and Board training

Aon's summer 2021 training series focusses on the new areas in the CIPFA knowledge and skills competencies framework. The series is made up of 7 sessions, each running from 10am to 12pm, as follows:

0. Thurs 1 July – Induction - Introduction to the LGPS
1. Weds 14 July – Pensions legislation and guidance, and national governance
2. Weds 28 July – Local governance and pensions procurement, contract management and relationship matters
3. Weds 11 August – Funding strategy and actuarial methods, and financial, accounting and audit matters
4. Weds 25 August – Investments – Strategy, asset allocation, pooling, performance and risk management
5. Weds 8 September – Investments - Financial markets and products
6. Weds 22 September – Pensions Administration and Communications

If you would like to register your members/officers for all or some of these sessions the link to the booking form is [here](#), and further information can be found [here](#).

Increasing engagement in pensions

Aon partnered with ITN Productions to produce a [short video](#) featuring Susan Gostick of BNP Paribas, and Jo Sharples and Matthew Arends of Aon, that highlights the need for everyone to engage with retirement savings to enhance their own retirement but also to be able to invest for a better future.

Personal Cyber Resilience Webinar 8th and 22 July 2021

We are running two free webinars in conjunction with Cyber Griffin, a cyber initiative run by City of London Police, on how to defend yourself against the most common cyber attacks. These sessions are aimed at you protecting yourself, whether you are a trustee or have another connection with the pension scheme, and are just as relevant to your personal life as your professional life.

If you would like to join for either webinar, please sign up [here](#)

Research and Publications

The latest research and publications by Aon: -

- [Week in markets](#)
- Aon has responded to the DWP's social investment consultation
- [The new normal – where are we a year later?](#)
- Our report on the mortality impact of Covid-19 on a sample fund has been updated and can be found on the [SAB website](#)



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