TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 12

PENSION FUND COMMITTEE REPORT

24 SEPTEMBER 2025

DIRECTOR OF FINANCE AND TRANSFORMATION – Andrew Humble

RECENT DEVELOPMENTS IN THE LGPS – BACKGROUND PAPER

1. PURPOSE OF THE REPORT

1.1 To update Members on recent developments in the Local Government Pension Scheme (LGPS).

2. RECOMMENDATION

2.1 That Members note the report.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications resulting from this report.

4. HIGHLIGHTS

4.1 The Pension Schemes Bill introduced, enabling reforms to investment management in the LGPS following the 'Fit for the Future' consultation. More can be found in paragraph 5.

4.2 His Majesty's Treasury published its response to the consultation held on Inheritance Tax. More can be found in paragraph 8.

4.3 Palestine Solidarity Campaign issued a letter to all LGPS Funds calling for divestment from Involved Companies. More can be found in paragraph 9.

4.4 Reform have announced its potential policy in relation to the LGPS. More can be found in paragraph 10 along with some responses to the proposals.

5. LGPS UPDATES

5.1 Following the Government's access and fairness consultation which launched on 29 July 2025 and closed on 7 August 2025, the Local Government Association (LGA) and the Scheme Advisory Board (SAB) have published their responses. The general consensus is that whilst the proposals are mainly welcomed, due to the number of areas affected this would have an impact on administration workload, particularly in backdating survivor benefits.

5.2 The Pension Schemes Bill has been introduced, and the second reading took place on 7 July 2025, with the Government publishing a press release outlining how the Bill aims to transform the pensions landscape and delivering better outcomes for savers. The Bill has now been sent to the House of Commons Public Bill Committee who scrutinise this and to inform its work, the Committee have launched a call for evidence. Chapter 1 of Part 1 of the Bill sets out the proposed changes to the LGPS following the Government's response to the 'Fit for the Future' consultation. The Government has published a roadmap together with an Explanatory Notes, but the clauses broadly affecting the LGPS where the Government would have new powers are:

a) Clause 1 relates to asset pool companies. This includes the requirement to participate in an asset pool with those assets being managed by the pool company, allowing the Secretary of State to issue guidance to asset pool companies and in prescribed circumstances to participate, or cease, in a particular asset pool.

b) Clause 2 relates to management of LGPS funds and other assets. This includes each administering authority setting out, publishing and maintaining an investment strategy, co-operating with strategic authorities in order to identify and develop investment opportunities. In addition, regulations may be made about where administering authorities must or may take advice when developing their investment strategies and the matters that must or may be covered by them.

c) Clause 4 relates to independent governance reviews taking place, with the Secretary of State being able to direct an independent review at any time in prescribed circumstances.

d) Clause 5 relates to mergers, including compulsory mergers of two or more LGPS funds.

e) Clause 93 amends sections of the Pensions Act 1995 so that a determination made by the Pensions Ombudsman in prescribed circumstances can be implemented without the need for an order from a competent court.

5.3. The Government has confirmed it will bring forward legislation to deal with the issues arising from the Virgin Media Ltd v NTL Pension Trustees II Ltd judgement. In 2023 the High Court ruled amendments of pension scheme rules were void in respect of Section 9(2B) rights unless the scheme actuary certified the scheme still met the contracting out adequacy test and the Court of Appeal upheld the High Court decision.

6. McCLOUD

6.1 The Pensions Regulator (TPR) issued a statement on 19 June 2025 about their expectations in relation to the McCloud remedy covering the exercising of the discretion, decision making and record keeping. The statement also suggests where the discretion is being exercised, affected members are informed of this before the annual benefit statements are issued. The LGA has queried this with TPR as this is not a regulatory requirement or within the statutory guidance.

6.2 As part of the criteria to be met for the McCloud remedy to apply considers membership in other public service pension schemes (PSPS) which has or has not been transferred to the LGPS, it is necessary to collate the periods of membership held with the other PSPS. The LGA have received clarification from MHCLG and His Majesty's Treasury (HMT) that as pension schemes have a legal obligation to pay the correct level of benefits to a member, member consent is not required to enable the sharing of that data between schemes.

7. SCHEME ADVISORY BOARD

7.1 Following the launch of the Government's consultation on access and fairness in the LGPS, which includes proposals on the Gender Pensions Gap reporting for the LGPS, the Board hosted a roundtable event bringing together industry figures and representatives from across public sector pensions to discuss the consultation proposals and broader adequacy issues. The group received presentations on how to ensure communication with scheme members could be improved, how scheme design can affect different groups and how to respond to the consultation which builds on the work done by the Board in this area.

7.2 The Compliance and Reporting Committee and its Audit working group discussed in June the Government's response to the Local audit reform: a strategy for overhauling the local audit system in England consultation, in which the Government committed to the decoupling of pension fund accounts from administering authority main accounts. It is expected the English Devolution Bill will be the legislative vehicle for the change with decoupling taking effect from the 2026/27 accounts onwards.

7.3 The SAB has a number of working groups already set up which rely on the knowledge and expertise of practitioners and are open to join, a new Administration working is in the process of being established which will look at developing the new Administration Strategy guidance in light of the governance proposals set out in the Fit for the Future consultation. In addition, the Board has been asked to contribute to developing pooling governance guidance and wishes to hear from funds and pools on what the guidance should include.

7.4 The SAB is holding an in-person Annual Assembly in London on 22 October 2025 for all Pension Committee and Pension Board Chairs and registration is now open. The Assembly will focus on issues and challenges funds face and is a unique opportunity to network with peers and engage directly with the Board.

7.5 The SAB launched a consultation on proposed changes to the LGPS Code of Transparency which closed on 15 August 2025. The Code, originally launched in May 2017, sets out obligations on signatories to provide consistent data to LGPS funds and pools on investment management fees and costs. The Board developed the cost transparency initiative (CTI) in 2018, then launching a centralised data system in 2020 to collect CTI templates. This allows the Board oversight of compliance with the Code; however, the Board is now considering replacing the centralised data system with a framework approach and believes some changes are needed to ensure the Code continues to meet the intended aims under the revised arrangements.

8 HIS MAJESTY'S TREASURY (HMT)

8.1. HMT published its response to the consultation on Inheritance Tax on 21 July 2025. It had been proposed for deaths after 5 April 2027, that most unused pension funds and death benefits would be included in valuing the estate for Inheritance Tax purposes and pension scheme administrators would be responsible for reporting and paying any Inheritance Tax due on pension to His Majesty's Revenue and Customs (HMRC). Following many concerns raised, some of the proposals have been amended being:

a)Death in service benefits from registered pension schemes, whether discretionary or not, will not be included in valuing the estate for Inheritance Tax purposes,

b)Personal representatives will be responsible for reporting and paying any Inheritance Tax due on pension benefits,

c)Pension scheme administrators will however have new duties on supporting personal representatives in paying Inheritance Tax due on pension benefits,

d)For personal representatives and beneficiaries struggling to pay Inheritance Tax on pensions the Government will offer multiple payment options, which include allowing pension beneficiaries to instruct pension scheme administrators to pay Inheritance Tax on pensions on their behalf, whilst the pension beneficiary will still remain liable for the Inheritance Tax.

8.2 Following on from the response to the consultation on Inheritance Tax, HMT have published draft clauses to be included in the Finance Bill 2025-26, which are open for technical consultation until 15 September 2025 and would amend the Inheritance Tax Act 1984. HMT have also published a draft explanatory note and policy paper on this. HMRC have confirmed they will continue to work with industry experts, representative bodies and advisers, with the Government consulting further on amendments. The Government also intends to publish tools and guidance to support personal representatives, pension scheme administrators and beneficiaries before the implementation date of April 2027.

9. PALESTINE LETTER

9.1 The Chair received a letter from Palestine Solidarity Campaign (attached as an Appendix) which threatens legal action if the Fund does not divest from "Involved Companies" who operate in the Occupied Palestinian Territory. Involved Companies in this context are those companies aiding or assisting in the commission of serous breaches of international law in the Occupied Palestinian Territory.

9.2 The LGPS Scheme Advisory Board has posted the following:

The Board is aware that many funds will have received a letter this week from the Palestine Solidarity Campaign, alleging that LGPS administering authorities are in breach of their legal obligations in relation to the ongoing humanitarian disaster in Gaza. The letter is accompanied by a more detailed position paper that has been prepared by senior lawyers at Doughty Street Chambers.

The letter says that both the Secretary of State, as the responsible authority for the Scheme, and individual administering authorities must take action to address the very serious allegations it contains. Although the letter asks for a response within 21 days, the Board believes that it is more important to take the necessary time to consider the arguments made and the appropriate response to them. The Board has a long-established role in assisting funds to act collectively in responding to this kind of challenge and it will aim to do so again. That may include seeking further legal advice.

Last year, letters were sent from PSC to funds that made similar allegations. In response the Board commissioned legal advice from Nigel Giffin KC which addressed the issues as they were understood in October 2024. Whilst the latest letter and position paper present more extensive, complex and specialist legal arguments than the earlier letter, they make no reference to the Giffin advice.

While the principles set out in the earlier advice still hold, we recognise that the situation in Gaza is an evolving one and we need to consider whether, and if so what, further advice it would be helpful to provide funds and who would be best placed to provide that.
The Board will also write to the Local Government Minister to ask for a Government statement on the issues raised – these matters of international law are clearly more in the competence of central than local government, something which the position paper acknowledges.

In the meantime, funds may wish to review their Responsible Investment policies in relation to human rights abuses and ensure they are both satisfied with the content of those policies and confident they are being applied effectively in practice.

9.3 Whilst the letter from Palestine Solidarity Campaign is addressed to the Teesside Pension Fund this is a national issue and guidance and a response is expected from the Scheme Advisory Board and MHCLG rather than individual Funds.

9.4 Border to Coast have so far identified very limited exposures in this area with the largest holding being in a sub fund Teesside Pension Fund are not invested in.

9.5 Teesside Pension Fund are part of Local Authority Pension Fund Forum (LAPFF) who have a workstream in their business plan to engage with companies operating in Conflict-Affected and High Risk Areas (CAHRAs). The long term objective of this workstream is to ensure companies fully integrate heightened human rights due diligence into their corporate strategies, governance systems, and decision-making processes when operating in CAHRAs. This approach aims to reduce the risk of companies exacerbating conflicts, prevent their involvement in human rights abuses, and strengthen their ability to operate responsibly in these regions. It does so by fostering robust governance, transparency, and accountability.

10. REFORM STATEMENT ON LGPS

10.1 Richard Tice, the deputy leader of Reform has revealed plans to overhaul council controlled pension funds which he says are failing to deliver value for money after becoming blinded by net zero. He also stated environmental, social, and governance (ESG) goals have been hard-wired into many funds' investment strategies – often at the expense of higher returns.

By improving performance, the Reform deputy claims, cash-strapped councils could afford to fund "a world-class social care system" or reduce council tax bills by up to £350.

10.2 A spokesman for the Ministry of Housing, Communities and Local Government said: "We do not recognise these claims about the Local Government Pension Scheme, and are absolutely committed to making sure it provides value for money and helps drive economic growth across the UK.
"The Pensions bill will help ensure this by streamlining the pools and consolidating funding so that we can unleash the full potential of the £360bn scheme."

10.3 Pensions UK responded to Reform UK Local Government Pension Scheme claims

- Today Reform UK made claims about the Local Government Pension Scheme that Pensions UK does not recognise.
- The Local Government Pension Scheme is one of the most successful in the world and is already on a reform journey projected to save millions and further enhance the effectiveness of the scheme.

Any policy proposing changes to the structure or approach of one of the largest pension funds in the world should be supported by evidence, and detailed plans. The duty of LGPS is to look after members' interests and that is where it is fully focussed.

Zoe Alexander, Director of Policy at Pensions UK, said: "The Local Government Pension Scheme is one of the world's most successful pension schemes, delivering pension payments to millions of workers across the country. It has consistently demonstrated financial resilience and operational stability throughout regular periods of rapid change, capitalising on economies of scale and a collaborative culture.
"It provides pensions on behalf of 15,000 employers and close to 7 million workers in Local Government. Those pensions are not generally large: the average sum received is around £5,000 per annum.
"The latest valuation figures show that the LGPS delivered an aggregate return of 8.9% in 2024 with average funding level of 108%. The next valuation is expected to show this position even further improved. Significant improvements in funding over this valuation cycle are already expected to result in reduced employer contributions. Any savings could be passed onto taxpayers via reductions in their council tax but these decisions are for individual councils.
"The policy of consolidation, pursued by both the last and current government, has led to considerable savings, estimated at over £1 billion. These savings are expected to accelerate as the pooling reforms proceed rapidly.
"The vast majority of LGPS investments are now carried out via FCA-authorised Pools, and from spring next year it is expected that all investments in England & Wales will be managed by these large, sophisticated vehicles.

"Like all significant UK pension schemes, the LGPS takes responsible investment seriously and integrates climate considerations into overall risk management.
"The LGPS also has a strong record of investing in Local areas – and we anticipate that the latest Government reforms, and the devolution Bill, to strengthen this further. It has the highest proportion of investments in domestic assets in the UK pension sector.
"Any policy proposing changes to the structure or approach of one of the largest pension funds in the world should be supported by evidence, and detailed plans. The duty of LGPS is to look after members' interests."

7. NEXT STEPS

7.1 No next steps are planned.

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