Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected:
(All Divisions);

Consultation on changes to the Local Valuation Cycle and the Management of Employer Risk
(Appendix 'A' refers)

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Executive Summary

The Ministry of Housing, Communities and Local Government are seeking views and consulting upon changes to the Local Government Pension Scheme regulations. The consultation focusses on the cycle of the local valuation process and also addresses issues concerned with the management of employer risk. The closing date for responses to the consultation is 31st July 2019.

Recommendation

The Committee is asked to note the contents of the consultation as presented at Appendix 'A', and are invited to provide any comments they may have to the Head of Fund for consideration in the Fund's final response.

Background and Advice

On the 8th May 2019 the Ministry of Housing, Communities and Local Government opened a 12 week policy consultation called 'LGPS: Changes to the local valuation cycle and the management of employer risk policy'. The consultation closes on the 31st July 2019.

The consultation covers the following areas:

- **Proposals to amend the local fund valuation cycle of the Local Government Pension Scheme from the current three year (triennial) cycle to a four year (quadrennial) one with effect from 2024.**

The preferred option within the consultation for transitioning into this is to allow the 2019 valuation to complete as anticipated with a further transitional valuation performed in 2022 prior to the commencement of quadrennial valuation in 2024. In effect this brings the local valuation in line with the national Local Government Pension Scheme valuation conducted by the Government Actuary's Department.

Although a driver for this change would be simply to keep the local and national valuation cycles aligned for ease of administration. The consultation paper also suggests that a longer valuation cycle would produce greater stability in employer contribution rates and save costs.

However, a longer valuation cycle could also potentially result in greater changes in employer contribution rates at each valuation and reduce the level of risk monitoring on scheme employers.

As a result the consultation proposes to allow funds to conduct interim valuations and/or amend contributions in between valuations when certain conditions, to be set out in the authority’s Funding Strategy Statement, are satisfied.

The Scheme Advisory Board will be invited to provide guidance to funds on the matters to be included in their Funding Strategy Statements in relation to the new powers to conduct interim valuations or review employer contribution rates mid-cycle.

- **Exit payments**

Where a scheme employer ceases participation within the Fund the regulations allow for the Fund to require the exiting employer make a payment covering any outstanding pension deficit liability.

The proposal in the consultation allows for the introduction of a ‘deferred employer’ status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant. In effect employers defer exit payments that would otherwise be due upon their termination from the fund, and provide an ongoing commitment to meet their existing liabilities, in an agreement with the fund.

For other employers who may not have a sufficiently strong covenant there are already provisions in place in the current regulations to spread the re-payment of any exit payment. Proposals in the consultation ask whether further protections may be needed in respect of this, such as a maximum time-limit for payment.

- **Exit Credits**

These were introduced in May 2018 and allow a scheme employer, who has ceased participation within the Fund in a surplus position, to receive an exit credit payment.

Unforeseen issues have arisen in relation to the interaction of the new provisions with existing outsourcing arrangements entered into on a “pass-through” basis. Such agreements will commonly involve the outsourcing authority subsidising all or part of the contractor’s LGPS contributions during the period of the contract, and also taking on liability for any deficit at the point of exit. However, because exit credits were not permitted by the Local Government Pension Scheme Regulations at the time these arrangements were negotiated, the outsourcing agreement will make no reference to what happens if the contractor's notional fund is in surplus at the exit date. The net result is that the contractor may be entitled to claim a substantial exit credit, even though it has borne no pensions risk during the contract.

The proposal is to amend the 2013 Regulations retrospectively to address this issue, by requiring an administering authority to take into account a scheme employer's exposure to risk when calculating the value of an exit credit. In particular, if the service provider has not borne any pensions risk, but has become entitled to an exit credit, then the exit credit should be assessed as nil.

- **Removal of the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the Local Government Pension Scheme to their non-teaching staff for new entrants**.

This proposal has been driven by various changes within the sector, including the facts that institutions in this sector are now officially categorised as non-public sector, are increasingly autonomous, and also that Further Education institutions and sixth form colleges can now legally become insolvent.

Access to the Local Government Pension Scheme would still be available for the purposes of recruitment and retention, but the decision whether to offer membership to a new employee would become a matter for each individual employer. Those already in employment, however, would retain their protected right to membership of the Local Government Pension Scheme for as long as they remain in continuous employment (including following a TUPE transfer).

Consultations

The consultation document has already been shared with the Fund's scheme employers who are invited to respond in their own right. The Fund will work closely with the Scheme actuary in providing its own response and will take on board any comments provided by members of the committee.

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified by the proposals set out within the consultation document.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A