Lancashire County Council

Report to the Pension Fund Committee
Meeting to be held on Friday, 7 March 2025

Report of the Director of Finance and Commerce

Inter Valuation Contributions Review

Part I	**Corporate Priorities**: N/A;
Electoral Division(s): (All Divisions);	
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Summary

Purpose of the Report

The LGPS regulations allow employer contributions to be reviewed between valuations in certain circumstances. This report recommends that contributions are reviewed for Further Education (FE) colleges following the introduction of a guarantee by the Department for Education (DfE) in November 2024.

Recommendation

The Pension Fund Committee is asked to approve that colleges move to revised contribution rates effective from the date of the DfE guarantee of November 2024.

Background

1. Regulation 64A of the Local Government Pension Scheme Regulations 2013 provides that the Administering Authority may review employer contribution rates between three-yearly Fund valuations when certain conditions are met.

2. The Fund has an "Inter-Valuation Contribution Review Policy" which was approved by the Penson Fund Committee at its meeting on 18 June 2021. This policy was introduced after consultation with employers and allows that a review of contributions can take place where there are significant changes in the employer's covenant. The change in the FE colleges' covenant is detailed paragraphs 4 to 6.

3. In the 2022 Actuarial Valuation of the Pension Fund, FE colleges were categorised as higher risk or "Category B" employers. This is because in the event that a college closed and was unable to make payment of any exit deficit payment to the Fund, there was no government guarantee to pay the shortfall. An

exit deficit can arise where the pension fund liabilities for an employer exceed that employer's assets within the Fund at exit.

4. In November 2024 a government guarantee was introduced so that if an FE college closes and is unable to pay any exit deficit, the Department for Education (DfE) will make payment to the Fund of any shortfall. There is an annual limit of the LGPS liabilities under the DfE guarantee of £32 million before requiring additional HM Treasury approval. Potential exit deficits at the 2022 valuation ranged from £6 million to £29 million for the colleges affected by the guarantee. These positions are expected to have improved since 31 March 2022.

5. The introduction of the guarantee puts colleges into the same position as academies within the Fund, and when announcing the guarantee, the Education & Skills Funding Agency stated that they expected administering authorities to treat FE bodies equitably with the academy and local authority sectors in setting contribution rates.

6. The guarantee does not affect the position of colleges when they exit the Fund in that the college would be responsible for any exit payment (normally immediate payment in full is required). The DfE guarantee would only apply if the college were unable to make the payment.

7. The Pension Fund Actuary has looked at the implications of the DfE guarantee for the Fund, and states that -

    - there is a clear justification for an inter-valuation contribution review for the affected employers.
    - the guarantee directly addresses the reason that FE colleges are categorised as higher risk employers i.e. it removes the risk of an unfunded exit payment.
    - the actuary recommends that all FE colleges covered by the guarantee are reclassified as lower risk Category A employers.
    - The result of this will be lower contributions for the colleges, and a reduction in risk for the other employers and the Fund as a whole.

8. Currently the FE colleges pay employer contribution rates which range from 16.9% to 20.4%. With the guarantee in place, FE colleges will move to paying employer contribution rates which range from 10.4% to 18.5%. This reduces the employer contributions paid to the fund by around £190k each month. To put this into context, total employer contributions for all employers are around £15 million per month.

9. Analysis has been undertaken to ensure that cashflow for the Fund is not affected by the proposal to reduce contribution rates from November 2024. Local Pensions Partnership Investments Limited is comfortable that the reduction in contributions and the refund of any overpaid contributions is manageable within the Fund’s overall cashflow position and does not expect them to have a material impact.

10. The Inter-valuation Contribution Review Policy states that consideration will be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review. The risk of an unfunded exit payment has directly been removed, which now protects the other employers in the Fund who would previously have borne any shortfall through their own contribution rates. Therefore, it is fair and equitable and in line with the Funding Strategy that FE colleges are treated as Category A employers and their contributions are reviewed accordingly.

11. Blackpool Sixth Form College is not affected by the proposal as it became an academy from 1 October 2024 and its contribution rate was automatically reviewed as part of that process.

Options and Proposals

12. The government guarantee significantly changes the covenant of FE colleges as Scheme Employers, and it is proposed that contributions for each of the colleges are now revised to the Category A rate outlined in the table at paragraph 8.

13. The guarantee came into effect in November 2024 and it is proposed that the changes are effective from that date. The revised contributions will be backdated to that date and a refund of any overpaid contributions will be made to the FE colleges.

Consultations

14. The Pension Fund Actuary (Mercer), the Independent Investment Advisers, and Local Pension Partnership Investments Limited have been consulted on these proposals.

Context and Implications

Legal (including Human Rights)

15. The relevant legal considerations, including the statutory basis for the inter-valuation contribution review, are set out in the body of this report.

Financial

16. The DfE guarantee provides the Fund with greater assurance that an exit deficit will be paid on the closure of an FE college and reduces the risk to the Fund as a whole. The Fund will receive less in employer contributions from the colleges on an ongoing basis but is immaterial in terms of overall contributions received and has a minimal negative impact on the cashflow.

Equality and Diversity

17. No implications.

Risk Management

18. There is a risk of challenge and reputational risk if the Fund does not review contributions in light of the DfE guarantee.

List of Background Papers

Paper	Date	Contact/Tel
None		

Part II Reason

19. N/A