LGF Reform and Pensions Team
Benefits Consultation
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Dear Sir or Madam

Local Government Pension Scheme (England and Wales): Changes to the Local Valuation Cycle and the Management of Employer Risk

Thank you for the Department's consultation document inviting comments on Changes to the Local Valuation Cycle and the Management of Employer Risk in the LGPS.

I respond on behalf of the Local Government Pensions Committee (LGPC) of the Local Government Association (LGA).

The LGA is a politically-led, cross-party membership organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. In total, 415 local authorities are presently members of the LGA. The Local Government Pensions Committee (LGPC) is a committee of councillors constituted by the Local Government Association (LGA), the Welsh Local Government Association (WLGA) and the Convention of Scottish Local Authorities (COSLA). The LGPC considers policy and technical matters affecting the Local Government Pension Scheme (LGPS) in the UK, a scheme which has over 5 million members.

This letter sets out the LGPC's views on the matters covered in the consultation.

Changes to the valuation cycle

The consultation proposes aligning the triennial LGPS fund valuations, undertaken by fund actuaries, with the quadrennial Scheme valuation undertaken by GAD from 2024.

In order to align the timetables the consultation proposes either a 5 year valuation for 2019 or a 3 plus 2 transition timetable with another valuation due in 2022.

LGPC response

The LGPC can see the logic of aligning the valuation timetable but is concerned that 4 years may be too long for some employers, together with the potential impact on employer budget cycles.

While recognising the significant additional administrative burden on authorities the LGPC would on balance support a 3 plus 2 transition. This is mainly as a result of recognising that 5 years would be too long a valuation period in normal circumstances but is especially so given the uncertainties over Cost cap and McCloud.

New powers to revisit funding between valuations

In order to mitigate the risk of longer valuation periods the consultation proposes the re-introduction of interim valuations and widens the ability to review employer contributions between valuations.

Both of the above would be subject to guidance issued by the Local Government Pension Scheme Advisory Board (SAB) to govern the circumstances in which they could be used.

LGPC response

The LGPC supports the principle of greater flexibility provided by interim valuations and contribution reviews. In particular, the eventual regulations should provide the ability to anticipate and react to changes in circumstances at the fund, the employer and the sector (groups of employers) level.

SAB guidance must ensure that the reasoning for such actions is sound and the circumstances, timing and potential outcomes are clear to all parties in advance of the action.

Flexibility on exit payments and deferred employers

The consultation proposes LGPS administering authorities should have the ability to spread employer exit payments over a reasonable period of time. This would regularise existing practice by introducing specific regulatory powers.

The consultation also proposes that the concept of Deferred Debt Arrangements recently introduced by DWP into private sector pension schemes be incorporated into the LGPS via Deferred Employer status.

Deferred employers being those with no active members who have satisfied the LGPS administering authority that they have sufficient covenant in place not to place the fund under undue risk.

They would remain deferred employers in the LGPS and be required to pay ongoing deficit contributions until such time that they have employees who actively contribute to the scheme or they formally leave the scheme without a deficit.

LGPC response

The LGPC supports the spreading of exit payments provided the administering authority is satisfied that this provides the best method of reducing risk to other employers. The LGPC also believes that such arrangements should be subject to transparent reporting in the annual report and accounts.

The SAB guidance covering deferred employer status must ensure that other scheme employers are protected from the risk of such employers defaulting and that all scheme stakeholders are fully aware of the extent and nature of such arrangements.

For both the spreading of payments and deferred employer status the regulations and/or guidance should make reference to the necessity for appropriate financial advice being taken by the administering authority.

Exit Credits

In April 2018 regulations were amended to provide for the payment of exit credits where employers left the scheme in surplus (the opposite of existing exit payments).

Since that time it has emerged that a number of contracting authorities have ‘side agreements’ in place which effectively remove the risk of deficit on exit from service providers who are admitted employers in the LGPS for the period of the contract.

These proposals would allow fund actuaries to take such side agreements into account when calculating the amount of any exit credit.

LGPC response

The LGPC supports the changes to allow fund actuaries to take side agreements into account for exit credits. However, regulations must be carefully drafted to ensure administering authorities are not dragged into contractual disputes between contracting authorities and service providers.

Employers required to offer membership of the LGPS

The consultation proposes that further and higher education establishments be changed from scheduled to designation bodies under the LGPS regulations. In effect they would change from a situation where they must offer LGPS to new employees to one where they may offer LGPS.

The consultation proposes no change for existing employees who are eligible for LGPS membership who would retain their right to be in the scheme.

LGPC response

The LGPC is concerned about the potential impact on future cash flows and scheme membership profiles which could result from this proposal and impact on remaining employers. The committee would wish to see detailed impact analysis before committing to a view on this proposal.

It is also concerned that this proposal could lead to similar moves in the Teachers' Pension Scheme which could result in increased employer contributions for local authorities.

LGPC is aware of the SAB's Tier 3 project which was commissioned to investigate, report and make proposals on issues such as the status of higher and further education establishments and suggests it may be advisable to wait for the outcome of that project before progressing this proposal.

I hope the above is helpful; if you have any questions, please do not hesitate to contact me.

Yours faithfully

Jeff Houston

Head of Pensions