MUNICIPAL YEAR 2019/2020 REPORT NO.

MEETING TITLE AND DATE:
Pension Board – 18th July 2019

REPORT OF:
Executive Director of Resources

Contact officer and telephone number:

Bola Tobun – 020 8379 6879

E mail: Bola.Tobun@enfield.gov.uk

Agenda – Part:	Item:
Subject: LGPS consultation on changes to valuation cycle and management of employer risk **Wards: All** **Key Decision No:**	
Board Member consulted:	

1. EXECUTIVE SUMMARY

This report provides an update on the MHCLG consultation to Changes to the Local Valuation Cycle and the Management of Employer Risk.
This consultation contains proposals on several matters relating to the Local Government Pension Scheme (LGPS) in England and Wales.

The key proposals in the consultation are as follows:

- i) to amend the local fund valuation cycle of the LGPS from three years to four years from 2024 (with an out of cycle valuation taking place in 2022).
- ii) to introduce powers for LGPS funds to undertake interim valuations (in full or in part) and to widen the power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations.
- iii) 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.
- iv) allowing an exit payment calculated on a full buy-out basis to be recovered over a defined period for cases where 'deferred employer' status might not be appropriate.
- v) a review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an employer.
- vi) removal of the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants.

2. RECOMMENDATIONS

Members to note the content of this report on proposed changes and the approach sets out for the Fund to follow in responding to the consultation.

3. BACKGROUND

3.1 On 8 May the MHCLG announced a consultation under the title "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk". The deadline for responding to this consultation is 31 July 2019 and the full document can be found https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf

3.2 The consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales and the key proposals in the consultation are as follows:

i) to amend the local fund valuation cycle of the LGPS from three years to four years from 2024 (with an out of cycle valuation taking place in 2022).

ii) to introduce powers for LGPS funds to undertake interim valuations (in full or in part) and to widen the power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations.

iii) 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.

iv) allowing an exit payment calculated on a full buy-out basis to be recovered over a period for cases where 'deferred employer' status might not be appropriate.

v) a review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an employer.

vi) removal of the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants.

3.3 It is proposed that a response is submitted by the London Borough of Enfield as administering authority for the London Borough of Enfield Pension Fund. As such, review of the Fund's response falls within the Pension Policy and Investment Committee's remit. As no further Committee meetings are planned between the time of writing this report and the closing date for the consultation (31st July 2019), it is proposed that a draft response be circulated to Members of the Committee and the Board via email for comments. Final approval will be sought from the Chair of the Pension Policy and Investment Committee prior to the final response being submitted. The draft response will be circulated no later than 19th July 2019.

3.4 Changes to the Local Government Pension Scheme (LGPS) valuation cycle Local fund valuations are used to set employer contribution rates and to assess whether funds are on target to meet their pension liabilities as they fall due in the years ahead, whilst the LGPS scheme valuation is used by Government to make decisions about the LGPS and its benefit structure on a basis consistent with other public service schemes. Previously, both local fund and whole scheme valuations were carried out on a triennial cycle. However, the Government has now brought the LGPS whole scheme valuation onto the quadrennial cycle used by the other public service schemes, so the local fund and whole scheme valuation cycles no longer align.

3.5 The Government suggests that moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs, as well as realigning the local valuation cycle to that of the scheme valuation.

3.6 However, it could also introduce additional risk, e.g. that changes in employer contribution rates may be greater because of longer valuation periods and that longer valuation periods could also lead to reduced monitoring of any risks and costs.

3.7 Views are being sought on whether this is the right approach and the best way of transitioning the LGPS to a quadrennial local valuation cycle.

3.8 To mitigate the risks detailed above, the consultation proposes the introduction of a power for LGPS funds to undertake interim valuations. This would allow LGPS administering authorities to act when circumstances change between valuations and undertake full or partial valuations of their funds.

3.9 It also proposes the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted following the outcome of a covenant check or where liabilities are estimated to have significantly reduced. This would not affect the timing of the next quadrennial fund valuation or the scheme valuation. It would, however, potentially allow administering authorities to manage risk and avoid the need for very sharp corrections if maintaining the longer review cycle

3.10 The introduction of safeguards to prevent the timing of interim valuations to take advantage of short term market conditions and undermine the cost and administrative advantages of a longer valuation cycle is also proposed. These would include a requirement for funds to specify in the funding strategy statement the circumstances under which an interim valuation may take place.

3.11 Views are sought on the detail of these measures and what LGPS funds should put in their funding strategy statements regarding these matters.

Flexibility on Exit Payments

3.12 For some employers, the cost of exiting the scheme can be prohibitive. Current regulations require that when the last active member of an employer leaves the scheme, the employer must pay a lump sum exit payment calculated on a full buyout basis. The consultation seeks views on two alternative approaches that could reduce the cliff edge faced by employers:

a) To introduce 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. Whilst this arrangement remains in place, deferred employers would continue to pay contributions to the fund on an ongoing basis:

b) To allow an exit payment calculated on a full buy-out basis to be recovered flexibly – i.e. over a defined period. This may be of use where an administering authority does not feel that granting deemed employer status would be appropriate but that some level of flexibility is in the interests of the fund and other employers.

Exit credits under the LGPS Regulations 2013

3.13 In 2018, the LGPS Regulations 2013 were amended to allow the payment of ‘exit credits’ to scheme employers in surplus at the time their last active member leaves the scheme. This followed a consultation on the introduction of exit credits undertaken by the Department in 2016. However, these amendments can cause issues where an LGPS employer has outsourced a service and used contractual arrangements to share risk with their contractor.

3.14 Views are sought on a mechanism to address this issue. The proposed solution would oblige the administering authority to satisfy itself if risk sharing between the contracting employer and the service provider has taken place (for example, via a side agreement which the administering authority would not usually have access to).

3.15 If the administering authority is satisfied that the service provider has not borne any risk, the exit credit may be calculated as nil.

Employers required to offer LGPS membership

3.16 Given the LGPS’s funded nature, with liabilities potentially falling back on local authorities and other public bodies in a particular area in the event an employer cannot meet its obligations, the Government is conscious of the need to ensure that scheme participation requirements remain appropriate.

3.17 Views are sought on proposals that would remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff.

3.18 It is proposed that it will be for each institution to determine whether to offer the LGPS to new employees or not. Under the proposals, current active LGPS members and those eligible for active membership in an employment with a further education corporation, sixth form college corporation or higher education corporation in England would have a protected right to membership of the scheme

4. ALTERNATIVE OPTIONS CONSIDERED

a) There is no alternative unless the Board and the Committee on behalf of the Fund do not consider the consultation nor respond to the consultation.

5. REASONS FOR RECOMMENDATIONS

a) For effective and efficient management of the Fund.

b) There is a requirement for Members to be kept up to date with legislative developments as part of their scrutinising role.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

1) The proposals contained within this consultation could impact the Pension Fund as follows:

    a) the proposals could impact on employer contributions payable through changes to the length of valuation cycle.

    b) Changes to exit payments and credits could also impact the terms of which an employer exit the scheme.

    c) the proposals could also affect the Fund's management costs through changes to actuarial and other supplier (e.g. legal) fees

2) Whilst it is not possible to provide a reliable estimate of the potential impact on the Fund, the outcome of this consultation could materially impact the Fund's financial health. It is therefore in the best interests of the Fund to ensure that a well-balanced prudent response is provided.

6.2 Legal Implications

One of the functions of the Pensions Board is to meet the Council's duties in respect of the efficient management of the pension fund. It is appropriate, having regard to these matters, for the Board to receive information about general developments affecting the Local Government Pensions Scheme. The Board's consideration of the information in the report contributes towards the achievement of the Council’s statutory duties.

7. KEY RISKS

1) Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 prescribes that each administering authority must obtain:

    a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;

    b) a report by an actuary in respect of the valuation; and

    c) a rates and adjustments certificate prepared by an actuary

2) The Pension Policy and Investment Committee’s is responsible for ‘making arrangements for the triennial actuarial valuation, monitoring liabilities and undertaking any asset/liability and other relevant studies as required.

3) This consultation proposes amending the LGPS Regulations 2013 to move the fund valuation cycle from the current three-year (triennial) to a four-year (quadrennial) cycle.

4) Consideration of the Fund’s response to this consultation would appear to properly fall within the Committee’s remit.

Background Papers
Appendix 1 - Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk