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Ref: Val Cycle/CLS

Dear Sir/Madam

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

Thank you for the Department's Policy Consultation seeking views on policy proposals to amend the Local Government Pension Scheme Regulations 2013 in England and Wales.

I am responding on behalf of Buckinghamshire County Council in its capacity as administering authority of Buckinghamshire County Council Pension Fund.

Changes to the local fund valuation cycle

We do not agree with the proposal to bring the local triennial fund valuations in line with the public sector pension scheme valuations quadrennial cycle. The LGPS is unique within the public sector, in that it is locally administered and has a huge number of diverse employers who participate in the Scheme. These employers have their own funding position, contribution rate and funding strategy. Many of these employers are admitted to the LGPS under admission agreements, the mechanism whereby employees of a Scheme employer are eligible to remain in the LGPS if their service/function is let via a contract by the Scheme employer. Often the period of the contract they are undertaking on behalf of the Scheme employer is very short. Changing to a four year valuation cycle would increase the risk of an employer's contribution rate rising considerably and the longer period would reduce the ability to monitor the risks and costs associated with each employer.

One matter to take into consideration is the cost of implementing the four yearly cycle. Over a 12 year period, a fund will save one valuation fee however; there is the potential to have interim valuations as set out by criteria in the Funding Strategy Statement. If circumstances arise whereby the criteria set out triggers an interim valuation, the cost saving of one valuation would be removed. If no interim valuations were triggered, we are of the view that saving the

cost saving of one valuation does not outweigh the risk to the fund that may arise due to the less frequent valuations. A move to a quadrennial valuation cycle would lead the Pension Fund to us include more prudence in the actuarial basis used to value liabilities and the assessment of employer contribution rates as a result. This could lead to higher ongoing costs in order to protect the fund from uncertainty and exposure to risk.

However, if the proposal to move to quadrennial valuations were approved, we agree with option b) in the consultation document (valuations at 31 March 2019, 31 March 2022 and 31 March 2024).

Dealing with changes in circumstances between valuations

We welcome the ability to undertake an interim fund valuation irrespective of the valuation period. We would also welcome the flexibility to undertake an interim valuation on some employers and not all. We agree with the requirement to set out, within the Funding Strategy Statement, the conditions that must be met which would permit an interim valuation. It will however be difficult for funds to balance having conditions that will permit an interim valuation to be triggered but avoid having to carry out interim valuations too frequently at the request of employers who may be trying to take advantage of market conditions at a particular time. We would appreciate guidance to assist funds with managing this along with the inclusion of a requirement within the guidance to consult with the fund's actuary on such matters.

We agree with the proposal to review employer contributions but would highlight that there are a high number of employers within our fund that are not statutory or tax raising employers. In line with the proposal, there is an expectation that funds would undertake covenant reviews for these employers which will incur additional costs and time spent on administering these, dependent on the frequency adopted.

We would strongly support having Scheme Advisory Board guidance to assist with dealing with employers when a request is made for a contribution review and when action is required as a result of the outcome of a covenant review. We are of the view that this guidance should also include discussions at local level with fund actuaries.

Flexibility on exit payments

We agree that funds should have the flexibility to spread repayments. We do not support the implementation of a maximum time limit. The period of repayment and the basis for determining the exit payment are decisions that should be made locally by the fund, after consultation with the relevant employer and the fund actuary. This will ensure the period of repayment offered is sufficient to guarantee the fund receives the amount due without forcing the employer into insolvency.

We agree with the proposal to introduce deferred employer status and deferred employer debt arrangements. We agree that key obligations and entitlements should be regulated for, with guidance from the Scheme Advisory Board to ensure consistency nationally when operating within the regulations. The proposed alternative methods to deal with exit payments will give

funds additional flexibility when dealing with the diverse nature of employers within the LGPS and enable the fund to choose the right method for each individual employer.

Exit credits under the LGPS Regulations 2013

We agree with the proposal to amend the LGPS Regulations 2013 to require administering authorities to account for the level of risk an employer has been exposed to when assessing the amount of exit credit due. To assist with this, there should be a regulatory requirement for an employer to provide the fund with details of any risk sharing or side agreements that have been entered into.

Employers required to offer LGPS membership

We do not agree with the proposal to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer eligible new employees access to the LGPS. These employers have high numbers of eligible employees within funds and if they were to exercise the right not to offer LGPS membership to eligible new employees, the active membership for these employers would decline over time, resulting in an ever increasing employer contribution rate to ensure the funding level required to meet the future payment of benefits. When the last active members leave, the exit payment required from these employers could be significant and would place funds in the position of seeking repayment of substantial sums and place these employers in a difficult position financially.

The proposal will also create a two tier workforce within these employers and will also add complexity to mergers should one of the colleges not offer the LGPS.

We would encourage the Department to nationally research the demographic of employees who work at these establishments to consider the potential equalities impact. Our experience is that the LGPS members of these employers are predominantly female and part time. If this was found to be the case nationally, further consideration should be given to the equalities impact of this proposal.

Yours faithfully

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