

Business & Customer
Transformation

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Richard McDonagh
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Date: 3 September 2009

Ref: n/a

Dear Richard

Subject: Local Government Pension Scheme – Delivering affordability, viability and fairness

Buckinghamshire County Council is the administering authority for the Buckinghamshire Pension Fund. The Authority's response to the 25 June informal consultation paper is summarised in the paragraphs below. A response from Buckinghamshire County Council as an employer within the scheme may be sent to you separately. Any responses from other employers within our scheme will be sent directly to you. This response relates to the 25 June consultation paper only.

This administering authority remains concerned about the financial cost of the LGPS as outlined in our responses to the 2006 LGPS Reform consultation. This authority is disappointed that the resultant new scheme in 2008 did not resolve affordability issues which to some extent has required this new consultation to be developed only fifteen months after implementation of the 2008 Scheme. This authority is also disappointed that DCLG could not publish the second consultation (paragraph 1 of the 25 June consultation refers) in a more timely manner which would enable a more holistic consideration of LGPS scheme review rather than this more fragmented approach.

Our detailed comments on specific proposals are outlined below. Our comments remain congruent with our March 2005 and February 2007 responses to previous LGPS consultations and we are broadly supportive of the transparency that we suspect DCLG are attempting to deliver.

Current public service pension context

In our view, all stakeholders are in agreement that an evidence based discussion is required to deliver an affordable and sustainable scheme. This authority would be happy to be proactively involved within this discussion but are of the opinion that a wider debate is required beyond the constraints of this consultation. The Buckinghamshire Fund has a long term investment focus



and therefore any updates to the scheme should deliver long term benefit. In our view this consultation focuses too heavily on the 2010 valuation although some sound governance principles are proposed.

Actuarial Valuations

This Authority supports the closer integration of the triennial valuation and Funding Strategy Statement. However, in order for this proposal to become effective, Pension Fund Committees will become increasingly reliant on the robustness of actuarial methodologies. Currently, any actuarial valuation provides a funding estimation on one particular day every three years in accordance with a set of underlying assumptions which are not uniformly adopted across all LGPS funds. This will lead to a requirement for each administering authority to fully understand such assumptions and may require more detailed guidance to be issued to LGPS actuaries in order to develop a more consistent and 'smoothed' approach to LGPS actuarial valuations.

If LGPS schemes are to become increasingly dependent of the work of the Actuary, it is our view that good governance should dictate a clear segregation of duties between the work of the Actuary and the work of the Investment Consultant.

In order to provide context to valuations, we would welcome an actuarial indication of a probability estimate that liabilities in the futures will be covered. The current funding level percentage is not necessarily forward looking. This probability estimate could be used in conjunction with current funding estimations as removal of the funding level outcome could be criticised as not being transparent. A probability estimate will reinforce the requirement for Funding Strategies to consider Fund liabilities and associated timeframes thereby producing more detailed analysis of Fund solvency.

Solvency

This authority supports the development of a financing plan to underpin investment strategies. However, this should not be used to lessen the burden contribution rates on employers. By artificially reducing contribution rates, a process will be established that could lead to a pensions "black hole" in years to come when rates would need to be raised significantly to recoup not only reduced pensions contributions but also investment opportunity costs. Although proposals in this area may have some merit, LGPS funds will need to consider how local arrangements are policed to avoid the build up of even greater funding deficits in the future.

This authority agrees that fund income currently is in excess of current liabilities and therefore improved cashflow analysis would provide for more robust planning, but this authority is committed to the pensions covenant and therefore seeks to reduce future financial burdens to employers. Whilst it may be appropriate that the 100% funding target is not realistic or fully justified in the short term, it must remain our long term goal even if a recovery plan with reduced funding targets may be more achievable and valid in the short term. This would also enable us to focus our medium term financing needs more robustly which is welcomed. However, a more logical timeframe for publication of a Financing Plan would be April 2011 when new contribution rates take effect rather than 1 October 2010. Therefore the Financing Plan ensure that Funds are managed in a more "realistic" way but it does not address the fundamental issue in that at some point in the future, Funds will need to recover the deficit shortfall that is likely to exist. Further debate and research is required as to when the point is

likely to be reached and what the impact is likely to be as of course the value of this sum is largely dependent on the view of Actuaries and future full funding probabilities; areas we have commended on above.

Contribution Tariff

This authority welcomes any acceptable proposals to increase Fund income. Increasing contributions from higher paid employees is a feasible option if evidence is available to suggest that remuneration will not be supplemented through alternative means to offset the additional cost to the individual. This would result in an unchanged outcome for the Council Tax payers of Buckinghamshire.

A small reduction in contribution levels for lower paid staff is not supported. Our calculation is that employees on Band 1 will save approximately 80p per week and therefore have a negligible effect on increased scheme membership but at the same time reduce Fund Income.

Conclusions

In summary, although some sound governance proposals are raised within the consultation paper, there is little to increase the likelihood of a more affordable outcome for employers in years to come. The proposals appear to mainly focus on the presentation of the 2010 valuation following a difficult period both in terms of investment performance and public sector pension criticism from the media.

Regionalising LGPS Funds further is not considered beneficial to this authority. Recent benchmarking shows the Buckinghamshire Fund to be £1.39 per scheme member per year cheaper to administer than the LGPS average and there is a logic that Members remain responsible for the impact of the Fund for the community it serves (Buckinghamshire and its neighbouring counties). In our view more radical scheme affordability proposals need to be developed if indeed evidence based research shows that deficits will impact on employers at a robustly estimated date in the future. The onset of probability statements, more consistent Actuary outcomes and detailed financing plan will assist the development of such evidence. We need to establish the likely real cost of this in order to establish the extent of change that is required. If a significant cash shortfall is predicted then not only should we not artificially reduce contribution rates, the LGPS should also critically review areas such as:

- Benefits for either current or future employees
- Dependent benefits and additional benefits (such as ill health)
- Rules regarding admitted bodies
- Pension transfer rules

We are happy to expand on any points raised in this letter and actively discuss the consultation further with DCLG as required. We look forward to receiving further DCLG consultations on this matter.

Yours sincerely

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