



**LGF Reform and Pensions Team
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Date: 18 June 2019
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Dear Sirs

Local Government Pension Scheme; Changes to the Local Valuation Cycle and Management of Employer Risk Policy Consultation

The reply is from the Leicestershire Local Government Pension Fund.

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

[Answer 1 – Yes, the Leicestershire Fund agrees LGPS fund valuations should move to quadrennial valuation cycles to align with the national quadrennial cycle.](#)

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

[Answer 2 – The Leicestershire Fund does not feel there are other matters that need to be considered before moving to a quadrennial cycle. However, the Fund does question whether the outcome of the McCloud case could influence the valuation results as at 31 March 2019 and may influence the need for a further valuation anyway.](#)

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

[Answer 3 – Yes, the Leicestershire Fund agrees local fund valuations should be carried out at the same date as the scheme valuation.](#)

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Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Answer 4 – The Leicestershire Fund prefers option B. This being; for the next fund valuation to complete as anticipated, using data as at 31 March 2019. Giving rates and adjustment certificates for the coming three years (i.e. from 1 April 2020 – 31 March 2023). The following valuation would be done with fund data as at 31 March 2022 but giving new rates and adjustment certificates for only two years. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter. The Leicestershire Fund believes this provides continuity and potentially gives LGPS funds greater certainty than a five-year cycle (as detailed in option A).

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Answer 5 – Generally the Leicestershire Fund does not feel Funds should have the power to carry out interim valuations in addition to the normal valuation cycle, however the fund does recognise it could help with employer specific issues and unforeseen events impacting on the entire fund.

That said, Fund employers need certainty with financial planning and the valuation process currently provides this. The move from three years to four years increases this certainty. To introduce interim valuations removes some of the certainty employers have in knowing their employer rates in advance. It also means funds could word their Funding Strategy Statements subtly to react to positive changes in financial markets, using these opportunities to run interim valuations, to potentially reduce their employer rates when Pension Fund funding should be looked at with a longer term view. Also, administration and actuarial costs should be considered. Valuation years are costlier to administer and to introduce interim valuations adds additional unnecessary administrative cost.

However, the Leicestershire Fund does appreciate there may be need for individual employer rates to be reassessed outside of the valuation period. The Fund believes this is sensible but only in exceptional circumstances. Those circumstances can be detailed in each Fund's Funding Strategy Statement. In these cases, the Fund feels all the work relating to this should be charged to that employer.

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The Leicestershire Fund has concern that by allowing interim valuations some Funds will do this and others will not. This could create unease among employers, some who are already in multiple Funds.

Requests from the Secretary of State should only be necessary if exceptional circumstances lead to a change in employer contribution rate supported by the Actuary.

Question 6 - Do you agree with the safeguards proposed?

Answer 6 – Yes, the Leicestershire Fund feels by having this detailed in the Funding Strategy Statement and in exceptional circumstance being able to apply to the Secretary of State provides sufficient safeguards.

The Leicestershire Fund stresses it must be clear employers cannot dictate when this process takes place.

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Answer 7 – The Leicestershire Fund generally supports the flexibility to review certain employer contributions between valuations but has some concerns with this.

The Leicestershire Fund agrees employers should be grouped and only certain employers would be able to request this. However, this should only be used in exceptional circumstances and it should not become the norm. The Funding Strategy Statement must be very explicit in confirming when this can be used otherwise there is a fear employers could request this regularly and the administration and actuarial work will increase significantly. The Leicestershire Funds supports the proposal that costs (administrative, legal, actuarial and other) can be recharged in full to the employer requesting the work.

There is sense in allowing some employers to reduce their employer rates if they were able to make one off payments, increase their covenant or in some other exceptional circumstances, for example they are in surplus and the contract is due to end shortly. Again, the Funding Strategy Statement must be explicit in detailing when this could be used.

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The Leicestershire Fund wishes to make it clear that the Fund is the decision maker and not the employer. Employers should only have ability to request a review of their contributions and they should pay for the work regardless of the outcome.

The Leicestershire Fund feels there is a benefit to require additional security from existing employers where the Fund feels the covenant strength needs improving.

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Answer 8 – The Leicestershire Fund believes non-statutory guidance from the Scheme Advisory Board would be helpful and appropriate to provide some consistency of treatment for scheme employers between Funds. However, it is essential this is non-binding as not all future circumstances will be envisaged at the time of writing the guidance.

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Answer 9 – The Leicestershire Fund feels there are no other areas of non-statutory guidance needed and Fund's Actuaries are best placed to offer guidance to their individual Funds.

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Answer 10 – The Leicestershire Fund supports the proposal for regulation changes to allow flexibility on spreading repayments from exiting employers, but these should still be calculated on a full buy out basis. However, the Leicestershire Fund feels this method should only be used in exceptional circumstances and it should certainly not be treated as the norm (e.g. if full payment was made immediately this would bankrupt the employer).

Funds should be able to produce their own rules as to when they will allow this, and it should be detailed within their Funding Strategy Statement. Given this will only be used in exceptional circumstances we feel there should not be a maximum time limit for

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making the repayment as this could have a detrimental impact on what is trying to be achieved.

The Leicestershire Fund feels we should be able to charge the employer any additional costs incurred for this work, including actuarial and legal.

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Answer 11 – the Leicestershire Fund supports the proposal for the introduction of deferred employer status (effectively what practically happens already, as detailed in question/answer 10) but feels this method should only be used in exceptional circumstances and it should certainly not be treated as the norm.

Funds should be able to produce their own rules and the “relevant events” should not be too prescriptive and Funds should be able to detail this within their Funding Strategy Statement.

The Fund is concerned by the increased administration, legal and actuarial work this could create and feels the additional costs incurred should be recharged back to the employer in full.

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

Answer 12 – As in answer 11, the Leicestershire Fund agrees with the approach but feels Funds should be able to produce their own rules and the “relevant events” should not be too prescriptive. Funds should be able to detail this within their Funding Strategy Statement.

The Leicestershire Fund does not believe there are other ways this can be improved for the LGPS.

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

Answer 13 – The Leicestershire Fund feels the proposed approach to implementation of deferred employer debt arrangements should be available within LGPS regulations.

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How this is then arranged should be for each Fund to decide within their Funding Strategy Statement.

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Answer 14 – The Leicestershire Funds feels option 2 and 3 should be available but only used in exceptional circumstances and these should not be the norm.

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Answer 15 – The Leicestershire Fund feels that statutory guidance is unnecessary and guidance from the SAB with work from Fund actuaries, written into the Fund Funding Strategy Statement is sufficient.

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Answer 16 – The Leicestershire Fund propose the original employer (the letting employer) and the contractor at the point of transfer agree what will happen to any exit payment when the contract ends. The administering authority must take into account a scheme employer's exposure to risk in calculating the value of an exit payment, but this becomes less of a concern if the letting employer and the contractor agree what happens to the exit payment at the offset. The Leicestershire Fund fully supports not making payment of any surplus back to the exiting contractor as standard and believes all exit payments should be calculated on a full buy out basis. The Leicestershire Fund prefers a regulation change to remove the right of any surplus back to the exiting contractor.

The Leicestershire Fund questions how this can be backdated to the 14 May 2018, especially for cases where a surplus has already been paid back to the exiting contractor as the regulation change require.

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Question 17 – Are there other factors that should be taken into account in considering a solution?

Answer 17 – If the change in regulations is backdated to the 14 May 2018 the regulations must be explicit in stating any surplus payments made in good faith must be returned back to the Pension Fund by the exiting contractor. However, the Fund does have concern about the administration and legal issues this could create in chasing repayments.

In addition, the Leicestershire Fund does not believe exit payments should be paid without also considering the full group of companies that the exiting contractor exists within. These should only be for other contracts within the Leicestershire Fund, not the wider LGPS Funds. Only when all letting employers in the Leicestershire Fund that have contracts with the exiting contractor have confirmed they have no claim on the payment, should an exit payment be made.

Question 18 – Do you agree with our proposed approach?

Answer 18 – The Leicestershire Fund understands that funding for some employers is becoming an increasing concern and why the chance for some employers not to offer the LGPS to new members is attractive.

Removal of the requirement will create a more mature fund with less active members replacing the leavers. This will make employer contributions more sensitive to shortfalls. Without new members contribution the mature fund will have a negative cash flow meaning that investment returns play a diminishing role in reducing any shortfall.

Guidance should be introduced that puts the onus on the organisation that is opting out to provide a form of security and use some of the financial saving to increase the rate of deficit recovery.

However, as stated above the Fund does appreciate the reason for this proposal. Therefore, if this is supported the Fund questions if other employers should also be considered in this arrangement, if other existing legislation does not preclude it.

In terms of new admissions, the Leicestershire Fund questions how current eligible employees will be tracked in terms of having entitlement to the LGPS. Will legal

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documents, similar to admission agreements, between these employers and the Funds be required.

The proposal supports these members still having entitlement to the LGPS on compulsory transfer to a successor body following the merger of two corporations.

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

Answer 19 – The Leicestershire Fund is not aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation. However, the Fund does question why the proposal refers to each corporation having the flexibility to offer the LGPS to all or some eligible new employees. If this was allowed, does this not automatically create inequality?

As requested in the consultation document, my details are as follows;

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Yours sincerely

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Cc Cllr Jennings – Chair of the Leicestershire Local Pension Board

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