

SURREY COUNTY COUNCIL**SURREY PENSION FUND COMMITTEE****DATE: 13 SEPTEMBER 2019****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE****SUBJECT: MINISTRY OF HOUSING, COMMUNITIES & LOCAL GOVERNMENT (MHCLG) – CONSULTATION ON CHANGES TO THE LOCAL VALUATION CYCLE AND THE MANAGEMENT OF EMPLOYER RISK****SUMMARY OF ISSUE:**

This report provides details of the Secretary of State for the Ministry for Housing, Communities and Local Government's (MHCLG) consultation on proposed changes to the LGPS Regulations in respect of the local valuation cycle and the management of employer risk. If implemented, these changes will have an impact on the funding strategy of the Fund.

RECOMMENDATIONS:

The Pension Fund Committee is asked to note the report and annexes.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee will be made aware of all national initiatives with a consultation process with a response sent within stated deadlines, in accordance with the 2019/20 Business Plan.

BACKGROUND:

1. In May 2019 the Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG) issued a consultation on proposed changes to the LGPS Regulations in respect of the local valuation cycle and the management of employer risk (see link to Background Papers).
2. The proposed changes include the follow:
 - Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle
 - A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles
 - Proposals for flexibility on exit payments
 - Proposals for further policy changes to exit credits
 - Proposals for policy changes to employers required to offer LGPS membership

3. An response on behalf of Surrey County Council, from Anna D'Alessandro, Director of Corporate Finance, was issued to MHCLG on 29 July 2019 (included as Annex 1).

<u>DETAILS:</u>

Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle

4. The Government has moved the LGPS scheme valuation to a quadrennial cycle and proposes to ensure that scheme and local valuations are aligned. It is the view that moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs.
5. *Surrey is of the view that before moving to quadrennial cycles, further information needs to be gained from the public sector accountancy and audit community. The current triennial valuation cycle means actuaries use approximate assessments for the intervening years. Lengthening the cycle may result in auditors being less willing to provide assurance.*
6. *Surrey also notes that the administrative complexity involved in making the necessary changes to move to a quadrennial cycle will incur increased costs in administration.*
7. *Unlike other public sector schemes the LGPS is a funded scheme and has a need for regular monitoring and assessments of funding positions due to the movements in asset and liability values, to take account of changes in employer covenant or to reflect external factors; such as the recent McCloud judgement. This creates an inevitable need for interim valuations with associated increase in actuarial and costs.*
8. *For the reasons stated Surrey does not support the proposed change to a quadrennial valuation.*

Measures aimed at mitigating the risks of moving from triennial to quadrennial cycles

9. On the assumption that scheme and fund valuations are carried out at the same date, the Government proposes a package of risk mitigation measures. These include, the introduction of a new power to enable funds to conduct an interim valuation to reassess their position and, where appropriate, adjust the level of contributions outside of the regular cycle.
10. *On the basis that the valuation cycle is extended to four years, Surrey supports the proposal to give funds the power to carry out interim valuations. Interim valuations will be key to ensuring that employer and fund risks can be monitored and managed in a timely and effective way.*

Proposals for flexibility on exit payments

11. The Government has recognised that some smaller and less financially robust employers are finding the current exit payment regime in LGPS onerous. This can also create the risk that some employers could be driven out of business as a result of inability to meet a substantial exit payment when they finally come to leave.
12. It proposes to grant funds more flexibility to manage an employer's liabilities in this situation, by spreading exit payments over a period or by allowing an employer with no active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities.
13. *Surrey recognises the employer experiences as laid out in the consultation and is supportive of the proposal that Funds should have flexibility to spread exit repayments.*

Proposals for further policy changes to exit credits

14. In the period since the 2013 Regulations were amended, the Government has heard some concerns about a consequential impact of the introduction of exit credits, specifically where a scheme employer has outsourced a service or function to a service provider. When the contract ceases, the service provider (as the scheme employer) may be significantly in surplus and entitled to an exit credit, even though the employer has borne the costs and the risk in relation to the service provider's liabilities through the life of the contract.
15. The Government has recognised that this was not the intention of the changes to the regulations and proposes to amend the 2013 Regulations to provide that an administering authority must take into account a scheme employer's exposure to risk in calculating the value of an exit credit.
16. *Surrey welcomes these proposed amendments to the 2013 Regulations.*

Proposals for policy changes to employers required to offer LGPS membership

17. Given the nature of the LGPS and the changes in the further education and higher education sectors the Government has questioned whether it is right to consider whether it is still appropriate for LGPS regulations to require that these employers offer the LGPS for all eligible staff.
18. It proposes to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.
19. Surrey brings to the attention to the Government that the proposed approach will have an impact on future cash flows of funds and current employer contribution rates for the scheme employer, as the fund would be required to consider them as a "closed employer". It would also bring forward the point at

which these institutions become an exiting employer, with the financial impact of the crystallisation of their pension liabilities.

20. *The Scheme Advisory Board's Tier 3 project was commissioned to investigate, report and make proposals on issues such as the status of higher and further education establishments and Surrey recommends waiting for the conclusions of this work before committing to an alternative approach.*

CONSULTATION:

21. The Chairman of the Pension Fund Committee has been consulted on this report

RISK MANAGEMENT AND IMPLICATIONS:

22. Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

23. Financial and value for money implications are discussed within the report.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

24. The Director of Corporate Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

25. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

26. This does not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

27. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

28. The following next steps are planned:

- Provide the Pension Fund Committee with details of the results of the consultation.

Contact Officer:

Neil Mason, Strategic Finance Manager (Pensions)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1 – Surrey County Council’s response to the MHCLG consultation on proposed changes to the LGPS Regulations in respect of the local valuation cycle and the management of employer risk

Sources/background papers:

- The MHCLG consultation on proposed changes to the LGPS Regulations in respect of the local valuation cycle and the management of employer risk <https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk?=7>

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