Valuation Cycle and Employer Risk Consultation – London Borough of Haringey Draft Response July 2019

This is a response on behalf of the London Borough of Haringey (LBH), and the Haringey Pensions Committee and Board to the above consultation by the Ministry of Housing, Communities and Local Government (MHCLG) issued in May 2019. The questions from the consultation document are answered in turn.

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?

We are not convinced of the merits of moving the LGPS in line with other schemes, as it fundamentally differs due to being a funded scheme and having a localised governance structure. The consultation document has not clearly set out what the benefits will be for the LGPS of moving to a quadrennial cycle. The various public sector schemes are all extremely different in terms of overall design (e.g. benefits structure) owing to the differences in the populations of employees who participate in them, and feel that this in itself is a persuasive argument for dealing with each scheme in its own right and not pushing for absolute consistency in all matters.

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?

One risk of moving to a quadrennial cycle is that funds decide 4 years is too infrequent to carry out valuations, and adopt a common practice of completing an interim valuation every 2 years, meaning that valuation exercises are carried out every other year rather than every third year. This could increase costs of such exercises (both in terms of professional fees and staff time) by up to 50% globally and across multiple years.

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

Yes

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

Yes

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

Yes, this is a helpful flexibility to allow the scheme to have.

Question 6 - Do you agree with the safeguards proposed?

Generally these seem sensible, but we would like to have further information about the types of circumstances when the Secretary of State would intervene and request funds carry out interim valuations. We would also suggest that the proposal for funds to set out the conditions for an interim valuation in their funding strategy statement, or exceptionally apply for a direction from the Secretary of State to carry out an interim valuation is unnecessary, given that Funds have the discretion to amend their Funding Strategy Statements (following consultation).

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

Yes, these are positive suggestions

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?

Yes

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?

N/A

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?

Yes, we agree that this flexibility should be introduced, however, we feel that the suggestion of a 3 year maximum time limit for repayment may be insufficient to deal with the problem that exists here. We would suggest it may not be in the best interests of all parties to specify a maximum time limit, and leave this to local discretion where all factors can be weighed. We do not feel there is a risk of funds acting in an unduly lenient manner here.

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

Yes, in principle, however we would be concerned that some employers may attempt to exploit this using the new exit credits concept to exit to time their exit in such a way that benefits them (not least given that we understand exit credits are deemed to be non-taxable sums). Therefore the fund must have absolute discretion around when to allow deferred employer status.

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?

Yes

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?

Yes

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

Yes

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?

We would consider Scheme Advisory Board guidance helpful around this issue to govern options 2 & 3.

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?

Yes, this is a critical amendment that is required, the proposed approach is sensible.

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

N/A

Question 18 – Do you agree with our proposed approach?

While the regulatory background regarding further education, higher education and sixth form colleges is clearly extremely complex, the proposal to allow such employers to not participate in LGPS is concerning. There are a number of equality issues that this could raise: e.g. the difference in pension provision for teaching and non-teaching staff, the difference in pension provision for 'new' staff members compared to those with continuous service who remain within LGPS etc. For the LGPS as a whole, we would not see the prospect of allowing a large subset of employers to opt out of the scheme as a positive at all, this will exacerbate the maturity of the scheme, by reducing active contributors.

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?

N/A