Local Government Pension Scheme: changes to the local valuation cycle and management of employer risk

Response of the Association of School and College Leaders

A. Introduction

1. The Association of School and College Leaders (ASCL) represents over 19,000 education system leaders, heads, principals, deputies, vice-principals, assistant heads, business managers and other senior staff of state-funded and independent schools and colleges throughout the UK. ASCL members are responsible for the education of more than four million young people in more than 90 per cent of the secondary and tertiary phases, and in an increasing proportion of the primary phase. This places the association in a strong position to consider this issue from the viewpoint of the leaders of schools and colleges of all types.

2. ASCL welcomes the opportunity to contribute to this consultation.

B. Answers to consultation questions

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?

3. This would seem sensible. We have, however, seen no evidence to support the reasoning behind this proposal.

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?

4. No. All risks, in our view, have been mentioned in the explanation.

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

5. Again, this seems to be sensible. However, we feel that there must be some protection against the huge increase in employer/employee costs generated by moving the cycle to four years. A shorter cycle introduces increased costs more gradually.

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

6. Yes, we agree with your preferred approach.

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

7. Yes, this pragmatic approach is welcome.

Question 6: Do you agree with the safeguards proposed?

8. Yes, we feel that the safeguards proposed are acceptable.

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

9. Yes. However, we would welcome further clarity on employers who have not kept up to date with their contributions and then are no longer employers, or in cases where the company is wound up. Who is will take on the responsibility for unpaid scheme debts if the employer goes bankrupt?

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?

10. Yes, we feel this would be helpful and appropriate.

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?

11. See answer to Question 7 above.

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?

12. We are concerned about the number of relatively new employers who may consider leaving the scheme due to cost who would previously have remained in the scheme as Tier 1 employers. The proposal seems to encourage employers to leave the scheme, due to cost, knowing that they will not have to pay their debts immediately but can arrange to have them repaid over a period of time. These new employers are exposed to market forces and may well cease to exist before the scheme is able to recover its costs, passing those costs on to other employers, employees or the Treasury.

13. Reducing their immediate liabilities may increase the opt-out rate, putting upward pressure on those remaining in the scheme.

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

14. No. See answer to Question 10.

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?

15. Yes, we agree with the approach as set out above. We do not have any suggestions as to how it could be improved.

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?

16. We are not in a position to answer this question.

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

17. We do agree. However, the caveat of our queries in response to Question 7 remains.

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?

18. Yes, we feel that guidance will be needed, but are not in a position to say which would be most appropriate.

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?

19. Yes, we agree with this.

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

20. We do not consider that there are other factors that should be taken into account.

Question 18: Do you agree with our proposed approach?

21. We do not agree with your proposed approach.

22. We would question the evidence for the statement 'The Government expects cases of insolvency to be rare'. We have recently had issues with academies ceasing to exist leaving unpaid pension liabilities for the employees.

23. It would seem that the reason for allowing this to be introduced is to lower the cost of the employers' liabilities for pensions for its poorest paid staff. The document talks about 'flexibility'; we feel it may be more appropriate to replace this with 'cheaper'.

24. Whilst claiming it to be rare, the recovery of monies would be passed on to the Local Authority or other employers. How would they be able to raise the funds to pay a privately-owned company's debts? Would it be appropriate for that to happen anyway?

25. We feel that the protections offered to staff in establishments opting out of scheme are weak. Experience has shown that few employers taking this route maintain the status quo for existing LGPS staff if there is an opportunity to lower costs by removing it.

26. Employers do acknowledge that this is a way to save costs, but tell us that they feel it is unfair that it is the lowest paid group of staff who would be affected by this. Many of our members are members of the LGPS and would be disadvantaged by being offered membership of a lesser pension scheme.

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?

27. We are not aware of any.

C. Conclusion

28. We hope that this response is of value to the process. ASCL is willing to be further consulted and to assist in any way that it can.

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