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Local Government Pension Scheme Stakeholders

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Dear Colleagues

## **THE LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND)**

1. The purpose of this letter is to seek the views of stakeholders about possible changes to the local fund valuation cycle. In 2019, the UK Government directed that the LGPS schemes' statutory valuations should move to a quadrennial (four yearly) cycle, and our consultation asks whether scheme and local valuations should be aligned.

2. Secondly, we are seeking to assess the impact of changes introduced in 2018 to the provisions in Regulation 61, which provide administering authorities with the option of suspending an employer's liability to pay an exit payment when managing the process of an employer exiting the scheme.

### **Background – Local Government Valuations**

3. In November 2018, HM Treasury issued amendments to the Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014, which set out the process for statutory public service pension scheme valuations. The Directions moved the statutory Local Government Pension Scheme valuations on to a quadrennial cycle in line with the other public service schemes. In May 2019, Ministry of Housing, Communities and Local Government consulted on proposed changes to the LGPS local fund valuation cycle and is currently reviewing feedback. Scottish Ministers are now inviting views on the merit of introducing changes to the local fund valuation cycles in Scotland, to bring the two processes in line.

4. The UK Government has taken the view that aligning the valuations for the LGPS schemes in Scotland and England and Wales with the unfunded public sector schemes will allow for a fuller analysis of outcomes across the public sector. The statutory report required by Section 13 of the Public Service Pensions Act 2013, which analyses Funds' solvency and long term cost efficiency, as well as compliance and consistency of approach in fund valuations, is also currently a three-yearly requirement.

5. The statutory cost cap valuation process for the LGPS measures, at macro-level, the cost of benefits being accrued in the funds. The employer cost cap mechanism in the LGPS works in the same way as other public sector schemes. Where the government actuary finds the costs of benefits have moved beyond two percentage points, adjustments must be made to return the schemes to the target costs. Regulation 101 provides that in such circumstances the Scottish Ministers must consult with the Scottish Scheme Advisory Board to agree the remedial procedure, with a default position being a change to the scheme accrual rate. This remedy would impact the local fund valuations which are used to set employer contribution rates.

6. The UK Government has suspended the statutory cost cap valuation dated 31 March 2017 whilst the Employment Tribunal considers how the discrimination introduced to the reformed public service pension schemes, identified by the Court of Appeal in the McCloud case, and should be addressed. In addition, the UK Government is reviewing the cost-cap mechanism and expects to conclude this review before the end of the next four year cycle in 2023.

7. The next triennial valuation for the Local Government Pension Scheme (Scotland) is due on 31 March 2020, the same date as the statutory valuation. We would therefore welcome views on the continuing alignment of statutory and local fund valuations from 2020.

## 8. **Background – Suspension notices**

The Local Government Pension Scheme (Scotland) Regulations 2018 introduced a new part to Regulation 61 (Special circumstances where revised actuarial valuations and certificates must be obtained). This was in recognition that for some employers, especially smaller 'Third Sector' employers, the cost of exiting the scheme when there are no longer any active members, is a significant issue.

9. The exit payment provisions are in place to protect scheme employers who remain in the scheme, to ensure that they are not burdened by the exiting employer's liabilities. However, it is recognised that the basis on which exit payments are calculated can be onerous and in some cases pose a risk to the employer's ongoing viability, with implications for employees and the delivery of key services to local communities.

Regulation 61(3) and (4) provide that;

*“(3) An administering authority may by written notice (“suspension notice”) to an employer suspend that employer’s liability to pay an exit payment starting from the date when that employer would otherwise become an exiting employer.*

*(4) If an administering authority serves a suspension notice the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits for the employer’s current and former employees until a new and satisfactory valuation is carried out and the suspension notice is withdrawn.”*

10. Under Regulation 56 of The Local Government Pension Scheme (Scotland) Regulations 2018, each administering authority must publish a Funding Strategy statement in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) statutory guidance. The purpose of this is to ensure the solvency and long-term cost efficiency of the fund, as defined by the Public Service Pensions Act 2013. The funding strategy statements outline each fund's general position on exit payments.

11. The suspension notice provisions in Regulation 61(3) and (4) of the regulations were designed to allow some flexibility in the settling of the employer's exit payment, whilst protecting other employers in the scheme. We are interested to learn how they are functioning in practice, in order to review their use and effectiveness.

12. Separately, the Scheme Advisory Board is continuing to monitor the experience of third sector employers and admission bodies, and work is underway to evaluate the scale of the issue. SPPA will collate feedback from administering authorities and employers in this consultation to support the Board's considerations in providing advice to the Scottish Ministers on any recommended changes.

13. The questions are set out in the attached Annex A.

## Consultation

14. You can respond to this consultation by completing the Consultation Response Form attached at Annex A which can be submitted electronically to [SPPAPolicy@gov.scot](mailto:SPPAPolicy@gov.scot) or by post to the following address:

Local Government Pensions Consultation  
SPPA Policy  
7 Tweedside Park  
Tweedbank  
Galashiels  
TD1 3TE

The consultation will close on 9 March 2020 and we ask that anyone wishing to respond does so by then.

## Completed information

19. The completed Respondent Information Form and any comments you wish to make should be returned, by 9 March 2020, to Kimberly Linge, Policy Manager, Scottish Public Pension Agency, 7 Tweedside Park, Tweedbank, Galashiels TD1 3TE.

20. Copies of the proposals and Respondent Information form can be accessed on the [Local Government Scheme Governance and Legislation](#) area of the SPPA website. Your responses and completed Respondent Information form can be sent electronically to [SPPAPolicy@gov.scot](mailto:SPPAPolicy@gov.scot). If you would prefer to have a set of these consultation documents and draft regulations sent to you in hard copy, please contact [SPPAPolicy@gov.scot](mailto:SPPAPolicy@gov.scot) to request a set.

Yours faithfully

Kimberly Linge  
Policy Manager, LGPS