



**Local Government Pension Scheme (Scotland)  
Employer Data Collection Exercise**

REVISED RESPONSE FROM ICAS TO  
THE SCOTTISH PUBLIC PENSIONS AGENCY

21 September 2017 (revised)

## Background

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business and in the not for profit sector; many leading some of the UK's and the world's great organisations. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

## Overall comments and proposals for reform of LGPS (Scotland)

ICAS has a long-standing concern about the financial challenges faced by charities and other employers participating in non-sectionalised multi-employer defined benefit schemes, in both the public and private sectors.

ICAS, through its Pensions Panel and Charities Panel, has been actively engaged with other key stakeholders in highlighting the challenges faced by admission bodies, particularly charities, participating in the Local Government Pension Scheme (LGPS) (Scotland) and has been in dialogue with the Scottish Government and the Scottish Public Pensions Agency (SPPA) to actively seek solutions.

Therefore, we welcome the preparation by the SPPA of a report on its 'Local Government Pensions Scheme (LGPS) (Scotland) Data Collection Exercise' which was completed in June 2016.

We believe that urgent changes are required, through formal regulation if need be, to allow community admission bodies participating in LGPS (Scotland) to cease future accrual without immediately triggering a cessation debt on a 'gilts only' basis. Similar measures should also be introduced to prevent the automatic trigger of a cessation debt on the exit of the last active member.

We believe that measurement on a 'gilts only' basis is over prudent and is an approach taken as a matter of custom and practice, without due consideration of the flexibilities which exist within the LGPS Regulations 2014. The measurement of a cessation debt on this basis mirrors (and could even be more prudent than) the approach taken under Section 75 of the Pensions Act 2004, as if the scheme was a private sector multi-employer scheme. As LGPS (Scotland) is not expected to close to new members or to wind up, we believe it would be reasonable for exiting employers to continue to fund their liabilities on an on-going basis or to be able to exit on a basis which is not calculated on a nil risk gilts basis i.e. all the investment and inflation risks are carried by the exiting employer. Our comments are broadly consistent with the findings of an independent report on LGPS in England and Wales 'Deficit Management in LGPS' prepared by PWC for the Local Government Association and the Scheme Advisory Board (for England and Wales) in July 2015.

We understand that the SPPA and the LGPS (Scotland) Scheme Advisory Board (SSAB) acknowledge these challenges and intend to explore options for reform. We would encourage the SPPA and the SSAB to engage with admission bodies to gain a full understanding of the challenges they face and to work with them to arrive at an equitable and transparent solution for both employers and LGPS funds. We believe admission bodies would welcome a formal consultation in addition to more direct engagement with both individual bodies and sector representative bodies. This could be achieved in part by having greater representation from admission bodies on the SSAB, which are currently represented by a member of staff from only one employer.

In this formal response to SPPA's Data Collection Exercise, we set out our perspective on the reported findings and make the following proposals for reform:

**Proposal 1:** All LGPS funds apply a consistent basis to those liabilities previously inherited from another LGPS employer participating in the same LGPS fund. Ideally, this would be the approach adopted by Lothian Pension Fund (LPF).

**Proposal 2:** All other inherited public service liabilities, i.e. those inherited from employers participating in another LGPS fund or another public service scheme should be dealt with on a consistent basis across all LGPS funds, ideally using the LPF approach.

**Proposal 3:**

- As a minimum, cessation liabilities inherited by an admission body should be actuarially adjusted to reflect the on-going basis for public service liabilities transferred to them by any LGPS fund or from any other public service scheme.
- In addition to admission bodies with inherited public service liabilities having all liabilities treated as on-going, all public sector out-sourced arrangements should be carried out on a pass-through basis. This would mean that employer contributions borne by the admission body for staff engaged on a particular contract are fixed for the duration of that contract and all liabilities relating to staff employed on the contract are returned to the local authority commissioner when the contract ends.
- It should be compulsory for all LGPS funds to provide admission bodies with a note of their estimated cessation value annually. This could easily be provided along with accounting disclosures and indeed several LGPS funds already offer this service.

**Proposal 4:**

- The LGPS Regulations 2014 should be amended to prevent the automatic trigger of a cessation debt on the exit of the last active member.
- LGPS funds should provide greater flexibility in the payment terms offered when exit debts are triggered.
- A maximum level of prudence should be established to calculate exit payments.
- We believe that where it is proven (possibly through an independent assessment, if there is any doubt) that an employer will be unable to fully fund their cessation debt, that employer should be permitted to exit based upon affordability.

**Proposal 5:** We believe that admitted bodies are under-represented on the SSAB and should have a minimum of two representatives to ensure that their specific circumstances are better understood and considered.

*(Note: Our above proposals are based on the information provided to the SPPA by LGPS funds as at 31 March 2014 which will have changed over the elapsed period. However, we believe that the position will not have improved and indeed will, in all likelihood, show that the risks are closer to fruition and the magnitude of liabilities greater than in 2014, thereby requiring more urgent action than envisaged at that time. As we expect that the broad position today will have deteriorated since 2014, we therefore believe that any exercise to provide updated information would strengthen our proposals.)*

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## The issues

It has widely been accepted that the structure of the LGPS discourages admission bodies from actively managing their liabilities within the Scheme. This is because there is no flexibility to cease future accrual within the LGPS without triggering a cessation debt. Likewise, a cessation debt is also automatically triggered whenever the last active member in an admission body leaves the LGPS.

This means that employers are forced to continue to accrue further liabilities, often well beyond the point of affordability, as they cannot afford to pay a cessation debt. Even if they close to new entrants to manage cashflow pressures in the short-term, it moves the employer towards an inevitable cessation. This approach is inconsistent with the approach for standalone defined benefit schemes and segmented multi-employer defined benefit schemes, which will allow employers to fund their scheme on a closed basis and ultimately settle the 'buy-out' debt when market conditions and employer finances make it affordable.

The inflexibility within the LGPS also means that LGPS funds are unable to manage the risk they are exposed to by employers continuing to accrue liabilities beyond their covenant (i.e. their ability to meet their obligations), which places an additional burden on the LGPS funds, other participating employers and tax payers, as well as placing other members' benefits at risk.

## Employer Data Collection Exercise

Based upon the above, in 2015 Scotland's Deputy First Minister, John Swinney MSP, instructed the SPPA to carry out some research on the quantum of the problem with a view to policy guidance being considered.

## Objectives of the SPPA's Employer Data Collection Exercise

The resulting report 'Local Government Pension Scheme (Scotland) Employer Data Collection Exercise' was compiled by the SPPA in June 2016 to "inform the Scottish Local Government Pension Scheme (LGPS) Advisory Board in their consideration of issues including the impact of cessation valuations on LGPS funds and contributing employers (Scheme Advisory Board 2015 Work Plan item 7)". The report provides "baseline information" to provide "important context" in considering next steps.

The report presents a useful summary of information provided to the SPPA by the pension managers of the 11 LGPS (Scotland) funds, and includes full details of the methodology and data used. We would welcome publication of the Report by the SPPA to enable others to consider its content.

## Summary of key findings from the SPPA's Employer Data Collection Exercise

We note the following key findings which arise from the SPPA's Employer Data Collection Exercise (all applying as at 31 March 2014):

- There are 530 employers with at least one active member in LGPS funds. Of these, 422 are admission bodies covering both transferee admission bodies (TABs) and community admission bodies (CABs). The remaining 108 are scheduled bodies, including local authorities.
- While 80% of employers are admission bodies they account for just 17% of the 218,669 active members. Local authorities have 74% of all active members.
- Scheduled bodies are deemed to have the Scottish Government as a guarantor.
- From 1 February 2013, all new admission bodies must provide some form of security – indemnity, bond or guarantor.
- The data for admission bodies guarantor status has been classified across nine categories. TABs are assumed to have a guarantor therefore admission bodies with no guarantor are assumed to be CABs. Of the 422 admission bodies; 223 have no guarantor. Of the 223 admission bodies with no guarantor; 102 (46%) have five or fewer members. Of the 102: 41 are closed to new members; 60 remain open to new members; and one did not specify.
- Of the 121 admission bodies with no guarantor and more than 5 members; 27 (22%) are closed to new members.
- Of the 102 admission bodies with no guarantor, 41 are at greatest risk of becoming an exiting employer due to being closed to new entrants and having 5 or fewer active members.
- Table 1 below (which reproduces table 2 of the Report) shows the assets, liabilities and surplus/ (deficit) for admission bodies with no guarantor.

**Table 1: Assets, liabilities and net (deficit)/ surplus for admission bodies with no guarantor**

|                     | <b>Assets<br/>(£000)</b> | <b>%</b>     | <b>Liabilities<br/>(£000)</b> | <b>%</b>     | <b>Surplus /<br/>(Deficit)<br/>(£000)</b> |
|---------------------|--------------------------|--------------|-------------------------------|--------------|---|
| 5 or fewer, open    | 38,011                   | 2.1          | 37,130                        | 2.0          | 881                                       |
| 5 or fewer, closed  | 36,993                   | 2.1          | 37,919                        | 2.0          | (926)                                     |
| 5 or fewer, unknown | 380                      | 0.1          | 381                           | 0.1          | (1)                                       |
| 5+, open            | 1,365,783                | 75.9         | 1,433,452                     | 77.1         | (67,669)                                  |
| 5+, closed          | 356,044                  | 19.8         | 350,366                       | 18.8         | 5,678                                     |
| <b>Total</b>        | <b>1,797,211</b>         | <b>100.0</b> | <b>1,859,248</b>              | <b>100.0</b> | <b>(62,037)</b>                           |

- The deficit associated with the 'at risk' group of 41 employers is £926,000 on an on-going basis as at 31 March 2014. The figures provided by two LGPS funds on a cessation basis for; employers with 5 or fewer members, open to new members, showed that the position moved from a surplus of £1.806m to a cessation debt of £5.877m; and for employers with 5 or fewer members, closed to new members, the position moved from a surplus of £131k to a cessation debt of £3.518m. Therefore, based upon an on-going deficit of £926k (97.5% funded) for the 41 employers we would expect the likely cessation debt to be somewhere in the region of £10m to £15m (based on a cessation funding position of between 70% and 80%). We would expect that given the fall in gilts yields from April 2014 that these figures could now be materially higher.
- Table 2 below (which reproduces Table 3 of the Report) shows the assets, liabilities and net (deficit) / surplus for admission bodies by employer type and guarantor status. Similar increases to those outlined above could reasonably be expected for the respective cessation debts for each group.

**Table 2: Assets, liabilities, and net (deficit)/ surplus by employer type and guarantor status**

| <b>Body type and<br/>guarantor status</b> | <b>Assets<br/>(£000)</b> | <b>%</b>     | <b>Liabilities<br/>(£000)</b> | <b>%</b>     | <b>Surplus /<br/>(Deficit)<br/>(£000)</b> |
|---|--------------------------|--------------|-------------------------------|--------------|---|
| <b>Admission body</b>                     |                          |              |                               |              |   |
| Scottish Government                       | 618,994                  | 2.0          | 637,375                       | 2.1          | (18,381)                                  |
| Local authority (LA)                      | 863,079                  | 3.0          | 852,999                       | 2.7          | 10,080                                    |
| Other                                     | 256,098                  | 0.9          | 260,427                       | 0.8          | (4,330)                                   |
| Local authority & other                   | 382                      | 0            | 359                           | 0            | 23  |
| Local Authority & bond                    | 1,216                    | 0            | 1,367                         | 0            | (151)                                     |
| Local Authority & CAY <sup>^</sup>        | 51,249                   | 0.2          | 45,895                        | 0.1          | 5,354                                     |
| Bond                                      | 16,057                   | 0.1          | 15,291                        | 0            | 766                                       |
| <b>No guarantor</b>                       | <b>1,797,211</b>         | <b>6.2</b>   | <b>1,859,248</b>              | <b>6.0</b>   | <b>(62,037)</b>                           |
| Not specified                             | 29,880                   | 0.1          | 32,618                        | 0.1          | (2,738)                                   |
| <b>Scheduled body*</b>                    |                          |              |                               |              |   |
| Non-LA scheduled                          | 3,329,084                | 11.5         | 3,484,737                     | 11.2         | (155,653)                                 |
| LA scheduled                              | 22,002,286               | 76.0         | 23,897,931                    | 77.0         | (1,895,645)                               |
| <b>Total</b>                              | <b>28,965,536</b>        | <b>100.0</b> | <b>31,088,247</b>             | <b>100.0</b> | <b>(2,122,711)</b>                        |

<sup>^</sup>CAY is not defined in the Employer Data Collection Exercise Report

\*The Scottish Government is deemed to be the guarantor for non-local authority and local authority scheduled bodies.

## ICAS comments on the SPPA's Employer Data Collection Exercise

The research is helpful in beginning the process of identifying the quantum of risk involved. As previously stated, however, it is based on data as at 31 March 2014. Similarly, our comments and proposals for reform are based on the data available at the same date.

From the data, we cannot assess the impact of pension liabilities on the financial sustainability of admission bodies as we do not have an understanding of the employer covenants backing the pension promises. Where an employer covenant is weak in relation to the promises, as we would expect to be the case with the 'at risk' group, the need for remedial action is the most pressing.

### *Existing flexibility not applied to cessation valuations*

The material in Annex A of the SPPA's report on 'Exit Payment Valuations - Current Process' confirms that LGPS funds have the flexibility to adopt a process which does not use a buy-out (or gilts only) basis on exit; however, they are not using this flexibility. The LGPS Regulations 2014 require a LGPS fund to commission a cessation valuation from the fund actuary but they do not specify the basis on which this calculation must be carried out. There is a significant amount of discretion which could be applied by LGPS funds to this calculation, should they choose to do so; however, they prefer to consistently apply a 'gilts only' cessation methodology.

### *Admission body cessation debts small in relation to LGPS assets*

The material in Annex A of the SPPA's report on 'Exit Payment Valuations - Risk Management' is correct in asserting that should employers not pay cessation debts in full then the shortfall will fall on the other employers in the fund. However, it is the extent of this potential liability that needs to be considered. Only 6% of liabilities and less than 3% of the deficit relates to employers without a guarantee and only around 2.1% of the deficit relates to the 'at risk' group. This group accounts for only 0.001% of total LGPS assets. Therefore, these amounts are relatively small in relation to LGPS, but the implications for the financial sustainability of individual admission bodies is likely to be significant, particularly for the 'at risk' group.

### *Level of prudence in cessation valuation is extreme*

Around 93% of LGPS liabilities relate to organisations where a cessation payment will never be relevant as there is no foreseeable prospect of LGPS ceasing to exist or not continuing to accrue liabilities. Therefore, we would contend that valuing cessation liabilities on the equivalent of a 'gilts-only' basis incorporates an extreme level of prudence. We would agree that some margin for prudence is necessary on exit to protect remaining employers. However, given the very limited extent of the liabilities under discussion; the long term open profile of LGPS liabilities; and the covenant on offer, we believe it would be possible for LGPS funds to make investment decisions that more closely match these liabilities. This would mean not investing solely in gilts for very small proportions of overall liabilities, while still providing some level of prudence over and above the on-going basis.

These comments are consistent with the findings of PWC's report [Deficit Management Report in LGPS](#) (3 July 2015) prepared for the Local Government Association (the representative body for local authorities in England and Wales) and for the, then Shadow, Scheme Advisory Board (for England and Wales).

### *ICAS commentary on PWC's Report 'Deficit Management in LGPS'*

Our commentary on the key recommendations from PWC's report are set out in table 3 below. The recommendations reflect much of the commentary supplied by charity representative bodies, charity advisers and charities themselves. ICAS broadly supports the recommendations and believes that some or all of these could be applied to LGPS (Scotland).

**Table 3: ICAS commentary on recommendations from ‘Deficit Management in LGPS’****More flexibility on when exit debts are triggered**

Debts would not be automatically triggered by the exit of the last member. The PWC report recognises that some minor changes to regulation will be required to enable this to happen in England and Wales.

**Establishing a maximum level of prudence when calculating exit payments**

LGPS funds tend to use a gilts-only basis to calculate the exit debt despite funds and buy-out insurers not investing assets in this way. This effectively means that employers paying a cessation debt are overpaying when compared to a buy-out annuity cost, and are cross-funding the other employers who remain. The latter point is recognised in the PWC report as inequitable, but both factors create a significant financial barrier for charities which wish to consider an exit. This recommendation to establish a maximum level of prudence when calculating exit payments would effectively reduce cessation debts for those looking to exit LGPS, for many to a point which may be affordable.

**Flexible exit arrangements**

These could include continuing to pay contributions on an on-going basis for a prescribed period and for employers to pay their cessation debts over a much longer period. These would be welcome flexibilities for many small employers. Making extended payment periods available would be more consistent with the approach adopted by standalone schemes and segmented multi-employer schemes in the private sector. Also, enabling employers to exit on an on-going basis would be consistent with the approach now being used by some English LGPS funds (see below).

**Employer exit on weaker terms**

It is recognised that in some circumstances it could be in the interests of LGPS funds, the remaining employers and the admitted body to allow some employers to exit on weaker terms and small charities are cited specifically as an example.

*Approach taken by the London Borough of Southwark Scheme fund to admission bodies*

It is interesting that given the limited exposure of LGPS funds to the pension liabilities of admission bodies that the London Borough of Southwark Scheme fund took the decision, following the 2013 actuarial valuation, to take responsibility for the closure payments of any admission bodies and to set a fixed contribution rate for all admission bodies of 22%. This was considered to provide a much simpler, efficient and cost-effective approach, as well as being likely to encourage greater participation from admission bodies in bids to provide public services, with a potential reduction in contract prices.

*Emerging practice in English LGPS Funding Strategy Statements*

What is also interesting is that over the last couple of years numerous English LGPS funds have revised their governing Funding Strategy Statements (‘FSS’), which seems to suggest that they are recognising the issues and taking tentative steps to try to address them. In a number of these documents produced in 2016 and 2017 the following detail is included:

*“As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter in to an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an on-going basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts based cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the body would have no contributing members.”*

This wording is usually also re-stated later in the FSS in the context of additional flexibility relating to closed schemes, suggesting that the English scheme funds will consider the option of continuing participation on a closed on-going basis for admitted bodies with no active members. This looks consistent with the deferred debt arrangement approach recommended in ‘The Draft Occupational Pension Schemes (Employer Debt) (Amendment) Regulations 2017’.

*Scottish LGPS needs a fairer more consistent basis for measuring debt*

Ultimately, LGPS funds do not know the cost of future benefits. The calculation is a figure derived using a series of economic assumptions about membership at one point in time. As gilt values vary so the cessation debt will vary. Why would the cessation value 10 years ago when gilt yields were up at around 5% producing one cessation figure be more or less 'right' than one calculated today when gilt yields may be around 1.5%? This approach to measuring liabilities may be correct if they were being secured with an insurance company (although even the insurers now use bases that are less prudent than 'gilts only'), but within LGPS they are not. The economic assumptions could be right but more likely they will not be. Therefore, LGPS needs to introduce a fairer and more consistent basis for measuring exit debt, especially as the current method also favours the LGPS funds in relation to future membership movements (for example, the exiting members subsequently dying early, transferring out their benefits or drawing them in different formats than expected). None of these circumstances are taken into account once a cessation debt is triggered and a settlement figure imposed. The ability to continue participation on a closed on-going basis would resolve this.

*The recoverability of cessations debts and assessment of risk*

There also needs to be an assessment of recovery in relation to cessation debts i.e. what amount of cessation debt is likely to be irrecoverable as a result of insolvency and how might these increase in the future through employers building additional liabilities?

We must question whether the level of risk deemed to attach to the 'at risk' group is greater than other admission bodies with no guarantor, which are closed to new entrants and have 5 or fewer active members. The 41 employers in this group may be deemed to be more 'immediately' at risk. However, there must also be question marks over employers in other categories. For example, should certain employers which are open to new members or have more than 5 active members be continuing to accrue liabilities as they may not have the covenant to support further accrual? Further accrual could be occurring as they do not have any alternative as they could not afford to pay a cessation debt. In addition, employers in the more than five closed category may be close to dropping into the fewer than 5 category.

It must also be a concern that (as at 31 March 2014) there were 94 admission bodies with 5 or fewer members and no guarantor, who continued to be open to new entrants. We suspect that this may have reflected employers who were not admitting new members but who had not formally notified LGPS funds that they were closed. An analysis for LGPS funds would no doubt identify these employers. However, this is likely to materially increase the 'at risk' group.

We are not convinced by the assertion in the paper that the majority of risk lies at some point in the future. There is no quantification of timeline and, as previously stated, the problems today may well be closer and larger than they were in 2014. We believe that the continuation of a low interest rate economy, which places increasing pressure on scheme funding and therefore contribution rates, puts continuing funding pressure on employers. The impact has been very visible where LGPS funds have looked to implement pre-cessation funding where there is an expectation by the fund that the employer will become an exiting employer. This, we believe, also ignores the key issue that continuing to allow employers to accrue additional liabilities beyond that which is affordable increases the future risk.

**ICAS proposals for reform**

We recommend that the SPPA and the SSAB consider the following proposals for reforming the relationship between LGPS funds and admission bodies:

**Proposal 1: All LGPS funds apply a consistent basis to those liabilities previously inherited from another LGPS employer participating in the same LGPS fund. Ideally, this would be the approach adopted by Lothian Pension Fund (LPF).**

A key problem for admission bodies in LGPS is the difference in practice among the various LGPS funds. This undoubtedly adds confusion for admission bodies and either exposes them to significant risk should they choose to take decisions without full facts and advice, or requires them to commit to additional expense via professional advice to assist them in navigating their way through the options.

A good example of this is in relation to inherited liabilities. Unfortunately, LGPS funds appear unable to segregate the service for individuals across multiple employers, which means that the later employer, usually a charity, inherits all the historic liabilities.



This means that we could have had an individual who had worked for a local authority for 30 years, then transfers to a new organisation, often performing the same job but the new employer becomes responsible for any shortfall in pension costs and potentially redundancy costs for the whole period of service. The new employer is also responsible for these liabilities on the much higher cessation basis compared to the on-going basis which would have applied to the public sector liabilities.

LPF has been the only LGPS Fund in Scotland to recognise how wholly inequitable this is and proposed a solution to the issue in their [September 2015 Bulletin](#). LPF has recognised that where there was service accrued under local government employment which was transferred to the admitted body that these employers should be dealt with in a different way and have any exit debt calculated on an on-going rather than a cessation debt basis.

The LPF approach is to apply the on-going basis to all liabilities for all employees of these affected bodies and not just those transferred liabilities, as LPF's view is that it would be inefficient to commit resources to identifying the split of these liabilities in detail. This should, to a great extent, offset any movements in liabilities over the period outlined above and, in our opinion, would be fairer to all parties.

This approach is not one that has been mirrored by any other LGPS Fund in Scotland. Admission bodies in other Scottish LGPS Funds continue to be expected to pay cessation debts for service previously accrued under a public body, despite not having had any commensurate compensation for having taken on these liabilities.

**Proposal 2: All other inherited public service liabilities, i.e. those inherited from employers participating in another LGPS fund or another public service scheme should be dealt with on a consistent basis across all LGPS funds, ideally using the LPF approach.**

It also must be questioned why there would be a difference between liabilities built up under former local government service from those accrued under other public service schemes, for example, the Principal Civil Service Scheme, and transferred to an admission body.

This issue of 'inherited' liabilities has not been effectively and consistently addressed across LGPS. It creates something of a past liability lottery as charities' very existence can be placed at risk purely as a result of recruiting a staff member with a considerable past liability in another public service scheme.

If it is accepted by one LGPS Fund (namely the LPF) that these prior liabilities should not be treated in the same way as those accrued by an individual with an admitted body, then why should this approach not also apply to liabilities which have been transferred to a new organisation as a result of an individual's change of employment?

**Proposal 3:**

- **As a minimum, cessation liabilities inherited by an admission body should be actuarially adjusted to reflect the on-going basis for public service liabilities transferred to them by any LGPS fund or from any other public service scheme.**
- **In addition to admission bodies with inherited public service liabilities having all liabilities treated as on-going, all public sector out-sourced arrangements should be carried out on a pass-through basis. This would mean that employer contributions borne by the admission body for staff engaged on a particular contract are fixed for the duration of that contract and all liabilities relating to staff employed on the contract are returned to the local authority commissioner when the contract ends.**
- **It should be compulsory for all LGPS funds to provide admission bodies with a note of their estimated cessation value annually. This could easily be provided along with accounting disclosures and indeed several LGPS funds already offer this service.**

Some LGPS funds have now addressed the issue of cessation liabilities for organisations providing outsourced public service contracts by offering a 'pass-through' in the contract which ensures that liabilities at the end of a contract will be treated in the same way as they were on the way in to the contract. However, this is not universal and requires individual negotiation with local authorities and LGPS funds which is complex, time consuming and expensive, and can put off potential bidders for contracts, none of which is in the interests of local authorities or tax payers. This issue also has not been addressed for historic contracts.

**Proposal 4:**

- **The LGPS Regulations 2014 should be amended to prevent the automatic trigger of a cessation debt on the exit of the last active member.**

This would allow admission bodies to participate in funds as closed employers, agree future 'on-going' funding with the LGPS fund to ensure a 100% on-going funding position is maintained and then be able to decide on an ultimate cessation debt when it is affordable. This would be consistent with the 'deferred debt arrangement' proposed by the DWP under the Draft Occupational Pension Schemes (Employer Debt) (Amendment) Regulations 2017. The ICAS Pensions Panel and ICAS Charities Panel [responded to the DWP's consultation on the draft regulations](#), and while we view the proposals for the 'deferred debt arrangement' as a step forward, we do have concerns which we believe require addressing prior to implementation.

- **LGPS funds should provide greater flexibility in the payment terms offered when exit debts are triggered.**

While we recognise that some progress has been made in providing more flexibility on the payment of cessation debts, the approach is far from consistent and the level of flexibility offered does not meet the needs of exiting employers.

- **A maximum level of prudence should be established to calculate exit payments.**

Currently LGPS funds tend to use a gilts-only basis to calculate the exit cost despite schemes and buy-out insurers not investing assets in this way. This effectively means that employers paying a cessation debt are overpaying when compared to a buy-out annuity cost, and are cross-funding the other employers who remain. The latter point is recognised in the PWC report as inequitable, but both factors create a significant financial barrier for charities which wish to consider an exit. This recommendation should reduce cessation debts for many of those looking to exit LGPS, to a point which could be affordable.

- **We believe that where it is proven (possibly through an independent assessment, if there is any doubt) that an employer will be unable to fully fund their cessation debt, that employer should be permitted to exit based upon affordability.**

Again, we recognise that some English scheme funds have taken steps to address this issue, but the approach is inconsistent across LGPS. While we recognise this will result in a figure less than the full cessation being paid, we believe that in many circumstances such a decision would be in the interests of LGPS funds, the remaining employers and tax payers, as it will limit the accrual of future benefits which may be unaffordable and therefore place other employers at increased risk.

The possibility of an independent assessment would mean additional costs but may be considered necessary in some instances to counter the risk of moral hazard.

**Proposal 5: We believe that admitted bodies are under-represented on the SSAB and should have a minimum of two representatives to ensure that their specific circumstances are better understood and considered.**