

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	27 MARCH 2015	AGENDA ITEM NUMBER
TITLE:	LGPS COST CAP MECHANISM	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Explanation of the LGPS Cost Control Mechanism		

1 THE ISSUE

- 1.1 Under the new public service pension scheme framework, the costs of the pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable.
- 1.2 In the LGPS in England & Wales, there will be two mechanisms used to do this:
- a) the employer cost cap process as operated by HM Treasury, and
 - b) the future service cost process as operated by the LGPS Scheme Advisory Board.
- 1.3 Both processes could lead to changes to the scheme design or to the level of members' contributions if the costs of the LGPS are shown to have moved sufficiently from the target.
- 1.4 This report is to inform the Committee as to how the cost control mechanism will work and how it will relate to the Fund's own valuation process. The mechanism will be applied across the LGPS nationally; local funds will only be consulted during the process and will be responsible for implementing any changes that arise from the process. Local funds have no discretion within the process.

2 RECOMMENDATIONS

That the Committee:-

- 2.1 Notes the information in this report.

3 FINANCIAL IMPLICATIONS

- 3.1 The LGPS regulations require that an actuarial valuation is commissioned every three years to assess the liabilities of the benefits accrued and set the contribution rates required to fund any shortfall in assets and the ongoing cost of future service.

4 COST CONTROL MECHANISM

- 4.1 Under the new public service pension scheme framework implemented by the Public Service Pensions Act 2013, the costs of the reformed pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable.
- 4.2 There are two mechanisms for the LGPS; one from the Treasury who want to demonstrate consistency in managing costs across all the public service pension schemes, and one from the LGPS Scheme Advisory Board (SAB) which has been set up to reflect the specifics of the LGPS experience in assessing the costs of the pension scheme reforms.
- 4.3 Both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved +/- 2% from the declared targets.
- 4.4 The Government Actuaries' Department will be responsible for assessing the costs under each mechanism.
- 4.5 Appendix 1 provides a full explanation of the two mechanisms and process for implementation.
- 4.6 The cost control processes will estimate the cost of the new scheme across the LGPS in aggregate, thus the results are highly unlikely to correlate with the contribution rates payable by individual employers. There are two main reasons for this:
- (i) Local funding valuations are based on individual fund and employer experience and assumptions are made based on this experience. The cost control processes will be looking at Scheme experience nationally and consequentially making assumptions on this basis.
 - (ii) Local funding valuations will include consideration of all the benefits payable by each fund and employer in their participation in the Scheme - including costs relating to the pre-April 2014 final salary benefits structure
- 4.7 The cost control process will be undertaken every three years in tandem with the local triennial valuations and will first be effective at the 2016 valuations using the data produced and submitted for the 2016 valuation.
- 4.8 Any revisions to contribution rates or the benefits structure as a result of the cost cap mechanism will not be effective until three years after the valuation; therefore for the valuation at 31 March 2016 the changes would be effective 1 April 2019. The delay is due to the need to consult with members on prospective changes.
- 4.9 As part of the process, local LGPS funds will be consulted on the outcomes of the cost cap calculations and the options for changing the benefits structure.

Local funds will then have to incorporate the changes in their valuation results.

4.10 The challenge for the Fund will be to communicate the information on the two cost control mechanisms to employers and members and explain how it impacts the Fund's valuation and contribution rates.

4.11 Mercer's initial analysis of the SAB mechanism is that the cost calculation that may emerge at the 2016 valuation will be higher than 13% of pensionable pay that their mechanism targets. This is because the post 2014 LGPS benefits have been improved since the 13% figure was first calculated and because the take up of the 50/50 option has been lower than originally assumed. It is too early to ascertain whether the increase over 13% of pensionable pay will be sufficient to trigger action under the cost cap process at this stage. This issue will be explored further as part of the Interim valuation due later in 2015.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has appropriate investment and funding strategies in place that are regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 No decision is required.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	