



## ADMISSION BODY ARRANGEMENTS IN THE LOCAL GOVERNMENT PENSION SCHEME QUESTIONNAIRE

### INTRODUCTION

1. This questionnaire accompanies the consultation document for admission arrangements in the local government pension scheme.
2. Only responses received using this questionnaire will be considered as part of the consultation exercise.

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### PERSONAL DETAILS

Name: Terry Edwards

Position: Head of Pensions

Organisation: Local Government Employers / Local Government Pensions  
Committee

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### EXPLORING THE APPROACHES IN DETAIL

#### Approach one: Provide revised guidance re-emphasising the original intentions

[Paragraphs 31-36 of the consultation document]

Question 1 do you think revised and updated guidance re-emphasising the original intentions of ABS would assist in a better understanding of the current arrangements?

Yes

No

Unsure

Please provide any comments in the box below

Question 2 Are there any specific issues that the guidance should focus upon in addition to those contained at paragraph 35 of the accompanying consultation document?

Yes

No

Unsure

Please provide any comments in the box below

The word “should” in paragraph 35(b)(iii) should be amended to “can”.  
The guidance should also:

- re-emphasise the current powers available to parties when dealing with pensions as part of an outsourcing
- say that funding streams from local and central government should be taken into account when assessing risk upon an outsourcing to a third sector body. Ideally, it would help if the local authority or central government department providing the funding acted as guarantor

Question 3 how formal should revised guidance be? Should it be statutory or simply authoritative but informal?

Statutory

Authoritative

Unsure

Please provide any comments in the box below

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**Approach two: Make minor regulatory modifications to make the existing framework work better**

[Paragraphs 37-39 of the consultation document]

Question 4 do you think this approach would help to address the concerns raised by stakeholders about ABS provisions?

Yes  Y to a degree

No

Unsure

Please provide any comments in the box below

But we would not support a regulatory change for a number of the items covered in paragraph 38 (see our answers to questions 5 to 10 below)

Question 5 is there a need for regulatory provision specifically to deal with any surplus at the end of a contract?

Yes

No  N

Unsure

Please provide any comments in the box below

Whilst a termination valuation is performed under regulation 78 of the 1997 Regulations, this is based on data at that point in time and may not account for additional liabilities incurred in the future e.g. resulting from increased longevity. Thus, any surplus should be retained in the Fund to meet potential future underfunding in respect of any members who became deferred or pensioner members during the lifetime of the contract.

Question 6 should annual actuarial monitoring of contracts to check staff and other variations be required in future?

Yes

No

Unsure

Please provide examples and details in the box below

Authorities already have sufficient powers to do this.

Question 7 should an annual review of indemnity cover be required?

Yes

No

Unsure

Please provide examples and details in the box below

Authorities already have powers to require this.

Question 8 should a prepared risk assessment be published locally?

Yes

No

Unsure

Please provide examples and details in the box below

We are not averse to the principle of local authorities publishing the factors they take into account when assessing risk. However, pensions is only one of the risks involved in outsourcing and it seems to us that if there is to be a requirement to publish the factors the local authority takes into account, this should apply not just to pensions but to all aspects of outsourcing. Hence, it does not seem appropriate to amend just the LGPS Regulations to require pension risk assessment factors to be published.

Question 9 should local authorities be required to provide a statement as part of the bidding process about actuarial aspects of ABS?

Yes

No

Unsure

Please provide examples and details in the box below

To ensure the message does not get lost and is taken on board by contracting staff within authorities, it needs to be contained in general contracting out guidance (e.g. that issued by 4Ps)

Question 10 are there other clarifications/amendments that should be considered for the ABS regulations?

Yes  Y

No

Unsure

Please provide examples and details in the box below

Pensions tends to be one of the last matters considered by outsourcing authorities. There is a perception that, being a specialist area, it tends to get “lost” amongst a whole plethora of guidance / information available to those responsible for contracting out (which, for example, could be one person in a small school). It is felt imperative that there should be a simple “Janet and John” guide listing everything that should be done during a contracting out exercise, including the pension aspects, with pointers / links to more detailed guidance on individual subject areas.

It would be useful if the regulations or guidance clarified the position in relation to

- sub-contractors and subsidiary companies, and
- schools letting contracts.

Changes to the LGPS Regulations are required to facilitate bulk transfers in to the LGPS (e.g. following an in-sourcing).

**Approach three: Consider the possibility of introducing some broader regulatory changes which enhance the options available, while at the same time, avoiding any conflict with the key policy basis of ABS.**

[Paragraphs 40-55 of the consultation document]

*Pass-through arrangements*

Question 11 should pass-through arrangements be seriously considered?

Yes

Y but see comments

No

Unsure

Please provide any comments in the box below

We are not averse to pass through as an available option for authorities to consider but this should not be mandatory, nor a default. Authorities should be free to weigh up the relative pros and cons before making a decision on whether to treat pensions as a pass through cost. In all outsourcings there must be no risk to the Fund.

Question 11a if so, should it be simply an available mechanism, recommended as an available option, the default option, or are there substantial business and other reasons for it to be made mandatory where the admitted body route is followed?

Available option

Y

Default

Mandatory

Please provide any additional comments in the box below

See comment under Question 11.

Question 12 what would be an appropriate apportionment of costs inherent in providing continued access to the LGPS? [For example, please state which risks should be the responsibility of contractors and/or the local authority]

Please provide details in the boxes below

Local authority

There is no standard appropriate apportionment. Each contract will vary and parties should be free to agree the terms for that contract.

Contractor

There is no standard appropriate apportionment. Each contract will vary and parties should be free to agree the terms for that contract.

Question 13 what are the implications of sharing these costs for all interests?

Please provide any additional comments in the box below

Question 14 should the precise apportionment of costs be subject to a degree of local flexibility? Should these be considered independently?

Yes

Y to first part of question

No

N to second part of question

Unsure



Please provide any additional comments in the box below

Question 15 should contractors also be liable for costs arising from changes in actuarial assumptions that are not specific to the scheme, such as mortality, which would fall on contractors whatever pension scheme they provided?

Yes  Y

No

Unsure

Please provide any additional comments in the box below

Question 16 should the contractor be given the benefit (i.e. a reduction in contribution rate or a refund on exit) if the changes have a downward rather than an upward effect on costs?

Yes

No  N  
on exit

Unsure

Please provide any additional comments in the box below

See comment under question 5.

Question 17 although contractors would not inherit past service liabilities, how should the effects of their decisions on past service liabilities would need to be taken into account?

Please provide any additional comments in the box below

Increases in longevity, increases in pay beyond the average, changes to scheme design arising from overriding legislation, etc can all impact on the cost of past as well as future service. A contractor would have had to meet such costs in their own broadly comparable scheme and so, when contracting out, authorities should be free to agree how such costs should be met. This would then be dealt with as part of the normal actuarial process.

Question 18 if the outgoing contractor has no liability under a terminal valuation and the incoming contractor does not inherit past service liabilities how could accrued deficits be dealt with when a contract passes from one contractor to another?

Please provide any additional comments in the box below

Liability remains with the authority and is dealt with through the normal actuarial process.

*Mandatory Admission Agreements when ABS is the contractor's preferred method of providing pension provision for transferring local authority employees.*

Question 19 are there reasons to re-consider the current position that it is for the contractor to decide whether to offer an open or a closed admission agreement, provided he complies with the general guidance on outsourcing, fair deal and two tier workforce?

Yes

No

Unsure

Please provide details in the box below

Question 20 should the provision of open admission agreements be a mandatory?

Yes

No

Unsure

Please provide details in the box below

*Cap and Collar*

Question 21 do cap and collar arrangements have merit? Are they suitable for regulatory treatment within the LGPS framework?

Yes

Y but see comment below

No

In part

Unsure

Please provide any comments in the box below

We are not averse to cap and collar as an available option for authorities to consider but this should not be mandatory, nor a default. Authorities should be free to weigh up the relative pros and cons before making a decision on whether to use a cap and collar arrangement. In all outsourcings there must be no risk to the Fund.

Question 22 what is your preferred status for cap and collar arrangements?

Available option

 Y

Mandatory

Do not agree with Cap and Collar

Please provide any further comments in the box below

See comment under question 21

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## FURTHER CONSIDERATIONS

Question 23 should different considerations apply to second and subsequent generation contracts from those which apply to first generation contracts?

Yes

No

Unsure

Please provide details in the box below

Question 24 are there other issues or approaches in addition to those set out in the consultation document which might usefully be considered?

Yes

No

Unsure

Please provide details in the box below

One additional available option not covered by the current consultation paper is that of addressing what appears to be the contractors' primary concern (meeting the cost of a terminal payment) by permitting the cost to be spread over a recovery period (coupled with a bond/indemnity which should be in place for the duration of the recovery period).

## SUMMARY OF OPTIONS

Question 25 would any of the three approaches proposed in the consultation document effectively address concerns raised about ABS provisions set out at paragraphs 21-23 of the consultation document?

Yes  Y

No

Question 26 which option do consider most appropriate?

Approach one

Approach two

Approach three

Part of approach three

Mixture of these approaches

Another approach

All three Approaches

Please insert any comments in the box below

An approach somewhere between approach one and approach two would be most appropriate

Question 27 how should any of the proposed changes be implemented?

Through guidance

Y

Through contract arrangements

Y

Through regulation

Y

Please insert any comments in the box below

We've ticked all three to reflect our view that most matters can be dealt with through guidance and contract arrangements with a few matters requiring slight regulatory changes. No one approach should be mandatory or be a default.

Thank you for responding to this consultation exercise. Please send this form to Darren Kristiansen at Communities and Local Government at [Darren.kristiansen@communities.gsi.gov.uk](mailto:Darren.kristiansen@communities.gsi.gov.uk)