Cost Management, Benefit Design and Administration Committee

Item 3 Paper A
Meeting 12 July 2021

ACTIONS AND AGREEMENTS
VIRTUAL MEETING HELD ON 12th April 2021 – 11.00am

PRESENT

George Georgiou	Members (GMB)	Chair
Sean Collins	Practitioners	
Kevin Gerard	Practitioners	
Emma Mayall	Practitioners	
Glyn Jenkins	Members - UNISON	
John Neal	Members - UNITE	
Graeme Muir	Actuaries: Barnett Waddingham	
Louise Lau	Actuaries: Barnett Waddingham	
Michelle Doman	Actuaries: Mercer	
Alison Murray	Actuaries: Aon	
Catherine McFadyen	Actuaries: Hymans Robertson	
Con Hargrave	MHCLG	
Brian Allan	GAD	
John Bayliss	GAD	
Robert Fornear	GAD	
Jeff Houston	LGA - Board Secretariat	
Jo Donnelly	LGA – Board Secretariat	
Robert Holloway	LGA - Board Secretariat	
Liam Robson	LGA – Analyst	

1. Welcome, introductions and declarations of interest

The Chair welcomed all in attendance to the meeting. There was one apology from Rachel Brothwood (CIPFA), there were no declarations of interest.

2. The Chair set out handling arrangements for the virtual meeting.

3. Matters arising

Glyn Jenkins (GJ) asked whether there had been any progress on the matter of New Fair Deal referred to on Page 9. Bob Holloway (BH) explained that MHCLG had been contacted following the meeting on

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the 11th January. Con Hargrave (CH) confirmed that MHCLG was open to a meeting to discuss outstanding legal issues.

In response to questions from the Chair (GG), BH explained that Ministers had responded to the SAB's good governance action plan by inviting discussion with MHCLG's pensions team, and that the Secretariat continued to keep an eye on developments with implementation of the Redmond Report on external audit.

Subject to an amendment at Line 9 on Page 3 to amend "George Graham" to read "George Georgiou", the Committee agreed the minutes for the previous meeting held on the 11th January 2021.

4. 95K Cap and McCloud Update

95K Cap

Jeff Houston (JH) provided an update following the government's decision to revoke the exit payment regulations. Members were advised that despite the revocation the government has made it clear that controlling public sector exit payments remains a policy objective and that fresh provisions will follow before the end of 2021. It is possible that "clawback" provisions could also be re-introduced.

Discussions with MHCLG will continue to consider what constitutes unreasonable pay levels and to clarify what were the "unintended consequences" that led the government to revoke the exit payment regulations.

JH informed members that a letter from MHCLG was sent to local authorities on the 9th April asking for details of all exit payments made over the past 5 years by the end of May.

McCloud

JH informed members that the Written Ministerial Statement from MHCLG was still awaited. CH explained that publication had been delayed for a number of reasons but that this was expected by the middle of May. CH also confirmed that the statement will set out the broad timescale for implementing the McCloud remedy and how this impacts on the LGPS.

In response to a question about the recent consultation CH expressed the hope that the government's response would be published by the end of July this year. JH pointed out that changes will need to be made to the Public Service Pensions Act 2013 before any McCloud remedy regulations can come into force. It will be possible to consult on draft regulations during the passage of the primary legislation to amend the PSPA, but new regulations could not come into force until the new Public Service Pensions Bill has received Royal Assent. In response to a question from the Chair about legislative timings, JH explained that it is understood that the intention is for Royal Assent to be given by the end of 2021, which would give time for regulations implementing McCloud remedy to be laid and effective from 1st April 2022.

During passage of the Bill JH advised members that there will need to be to two major areas of work, firstly to identify and re-consider cases falling within the 2014-2022 remedy period and secondly, to prepare the necessary changes in processes and systems to implement remedy.

The Chair advised members that the trade unions had never accepted the government's view that the costs of remedying McCloud should be considered a member cost, and there is an outstanding judicial review application against the government's decision across all public sector schemes. He stated that whilst Trade Unions representing scheme members were prepared to discuss this and the next agenda item they did so without prejudice to the forthcoming judicial review.

In response to a question from the Chair JH explained that work on the McCloud remedy will be taken forward by the SAB McCloud Implementation Group.

Emma Mayall (EM) expressed concern about the role of software providers in responding to the necessary changes and, in particular, with the speed at which they want to work when little is still known about the arrangements or details of the remedy. A more joined up approach would be helpful. JH undertook to speak with EM after the meeting.

GJ questioned whether the supplement added by local fund actuaries to employer contribution rates at the last valuation to reflect McCloud costs remains valid and whether there are any employers using the supplement as a reason for wanting to leave the scheme. GJ also said that if the government is responsible for McCloud costs then it should pay those costs for the LGPS. In response JH explained that provisions for McCloud would vary across different authorities depending on what was advised by local fund actuaries.

CH advised members that there is sufficient time to plan well for the changes and that the Written Ministerial Statement will offer more clarity on next steps and the timetable.

Agreed – that the committee notes the above position.

5. 2016 Cost Cap Valuation

Brian Allan (BA); John Bayliss (JB) and Robert Fornear (RF) gave three separate presentations on the draft HM Treasury Valuation Directions, implications of the Directions on the LGPS and the assumptions to be adopted in the HM Treasury arrangement when the 2016 valuation is re-visited. Copies of all three presentations were sent in confidence to members in advance of the meeting.

Before the presentations JH reminded members that the purpose of the agenda item is to give SAB a baseline when it considers how to proceed with the 2016 cost control valuation, including the treatment of McCloud costs, when it meets on the 10th May. The discussion today is solely about the assumptions, excluding any reference to McCloud costs, to be recommended to SAB and whether any should be re-considered or varied.

Questions on the HM Treasury Directions

John Neal (JN) asked why the four year spread period could not be extended given that the LGPS is a funded scheme. JH also asked whether the four year period was “hard wired”. In response, JB explained that the shorter the period the higher the cost and that other scheme’s advisory boards have raised similar issues about what the resulting position would be if HMT had picked a longer spreading period. It would be possible for GAD to provide cost estimates based on different spreading scenarios.

Catherine McFadyen (CM) asked how the actual McCloud costs will be monitored against those based on demographic and financial assumptions that are likely to change over time. GJ made a similar point. JB said that he was unaware of any plans to monitor actual costs incurred over time, and that the overarching aim of the policy is to ensure intergenerational fairness.

JH asked if there was any intention to impose spread periods on local fund valuations. CH confirmed that this would not be the case.

GJ raised several concerns about how the high turnover of staff in the first two years of service and the impact of the covid pandemic on longevity might affect the 2016 valuation under the HM Treasury arrangement.

JH asked whether the 2016 valuation would be a one-off exercise, or whether it could be revisited in future if McCloud costs changed. In response, BA said that future HM Treasury cost cap arrangements could pick up unforeseen costs from the 2016 exercise.

JB reminded members of the current review of the HMT cost cap arrangement by GAD which is due to be completed shortly but that this will have no bearing on the 2016 valuation

Questions on SAB arrangement and assumptions

JH advised members that in the initial 2016 valuation the SAB assumption on pay growth was significantly lower than that adopted under the HM Treasury arrangement.

JH explained that before SAB meets on the 10th May a number of group meetings with employer, employee and fund actuary representatives would be held.

GJ recommended that in considering assumptions, SAB should reflect on the impact of the covid pandemic on mortality. JH advised members that the Secretariat will be re-visiting the earlier work undertaken on mortality and, in particular, the two fund specific case studies.

Alison Murray (AM) referred to the assumption on 50/50 take up rate and asked for the wording in the paper to be amended to better represent the position that local fund actuaries did their best to provide meaningful data on take-up rates.

Agreed – that, SAB adopts the same methodology and assumptions it adopted at the initial 2016 valuation.

6. MHCLG Regulatory Update

CH confirmed that all updates had been covered during the meeting.

7. AOB and date of next meeting

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No AOB items were raised. The date of the next meeting is the 12th July 2021.

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