Cost Management, Benefit Design and Administration Committee

Meeting 13th September 2021 – 13.30 to 15.30

Item 3 Paper A
ACTIONS AND AGREEMENTS
VIRTUAL MEETING HELD ON 12th JULY 2021 – 11.00am

PRESENT

George Georgiou	Members (GMB)	Chair
Sean Collins	Practitioners	
Kevin Gerard	Practitioners	
Emma Mayall	Practitioners	
Rachel Brothwood	CIPFA	
Glyn Jenkins	UNISON	
John Neal	UNITE	
Graeme Muir	Actuaries: Barnett Waddingham	
Louise Lau	Actuaries: Barnett Waddingham	
Michelle Dorman	Actuaries: Mercer	
Alison Murray	Actuaries: Aon	
Catherine McFadyen	Actuaries: Hymans Robertson	
Teresa Clay	MHCLG	
Michael Scanlon	GAD	
John Bayliss	GAD	
Brian Allen	GAD	
Jeff Houston	LGA - Board Secretariat	
Joanne Donnelly	LGA – Board Secretariat	
Robert Holloway	LGA - Board Secretariat	
Gareth Brown	LGA – Board Secretariat	

1. **Welcome, introductions and declarations of interest**

The Chair welcomed all in attendance to the meeting. There were no apologies and no declarations of interest.

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

3. **Matters arising**

Glyn Jenkins (GJ) enquired about his earlier request for a meeting with MHCLG to discuss new Fair Deal. Teresa Clay (TC) agreed that they should meet. The committee agreed that GJ and TC should make their own arrangements for a meeting.

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The Committee agreed the minutes for the previous meeting held on the 12th April 2021.

4. 95K Cap and McCloud Update

95K Cap and Special Severance Payments

Jeff Houston (JH) advised members that the government's intention is to bring forward proposals on new 95K cap provisions by the end of the calendar year. Members were also informed that MHCLG has commissioned data on exit payments from administering authorities with initial results showing average payments in the region of £26k over the past two years.

JH informed members that HM Treasury has published a consultation on special severance payments but for the LGPS MHCLG will be bringing forward similar proposals and guidance for a six week consultation. The proposals cover non-statutory, discretionary payments and may include strain costs in certain circumstances, for example, where an employer decides to waive strain costs. Clarification on this will be sought from MHCLG.

GJ asked whether strain costs were included in the average exit payment of £26k? JH confirmed that this was the case.

GJ commented that the proposals on special severance payments would invite some employers to reduce staffing levels.

John Neal (JN) commented that the proposals lacked clarity and that there were issues around consistency. He also questioned whether the six week consultation would be sufficient. TC agreed that a meeting to clarify these concerns should be arranged.

Action – Secretariat to set up meeting

McCloud

JH advised members that the Public Service Pensions Bill enabling schemes to introduce their McCloud remedy would be introduced within the next few weeks and that amendments are likely to be made as the Bill progresses through Parliament. Discussions around the treatment of club transfers and the role of software providers will need to be held.

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Kevin Gerard (KG) asked what the position would be if the scheme's regulations cannot be made on time? JH responded by saying that it will depend on the passage of the Bill where the intention is that it will be enacted in time for scheme regulations to be introduced in March 2022. If the Bill is delayed there could be a year's delay in schemes being able to introduce their own regulations.

George Georgiou (GG) reminded members that GMB does not recognise McCloud costs as member costs, which will be the basis of any judicial review challenge.

GJ posed the question whether employers would be reimbursed any increase in their employer contributions because of the McCloud remedy if any judicial review was decided against the government. JH asked the fund actuary members for their views.

Graeme Muir (GM) explained that Barnett Waddingham allow for a degree of prudency in their valuations to cater for uncertainties such as McCloud remedy costs.

Alison Murray (AM) confirmed that Aon made specific allowance in their valuations for McCloud remedy costs in the region of 0.9% of payroll.

Catherine McFadyen (CM) for Hymans Robertson explained that a small allowance was made to reflect McCloud remedy costs bearing in mind that the full cost will unwind over successive valuations.

Michelle Dorman (MD) confirmed that Mercers gave employers the choice of either an increase in contributions or remedy costs being spread over their recovery period.

Agreed – that the committee noted the situation as described above.

5. 2016 Cost Management Valuation Update

JH informed members that a special Board meeting was held on the 1st July when agreement was reached that the assumptions initially set for the 2016 cost cap valuation under the SAB process should be retained without change. The Board also considered what spread period should be adopted based on data commissioned from GAD. It was agreed that a ten year spread period should be adopted which

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meant that 60% of those members qualifying for remedy would have left the scheme.

This results in a provisional scheme cost of 19.4% compared to the target cost of 19.5%. With a difference of 0.1% the Board would have the discretion to decide to make recommendations for scheme improvements but there was unanimous agreement that no such recommendations should be made within the Board's cost management arrangement. Instead, the Board agreed that recommendations to remove the third tier ill-health provision from the regulations and to address concerns about the contributions paid by the lowest paid scheme members should be made to MHCLG outside of the cost management arrangement. The Board also agreed that a form of words will need to be agreed about the inclusion of McCloud costs in the cost management arrangement.

GG enquired about next steps and the likely time scale. Mike Scanlon (MS) explained that a letter to MHCLG setting out the background to the 19.4% scheme cost would be sent within a few days after the meeting.

GJ asked if the Board's decisions were subject to MHCLG/HM Treasury approval. JH confirmed that this was not the case.

AM asked when clients could be informed of the outcome. JH confirmed that the Secretariat will notify stakeholders when the letter to MHCLG has been sent.

Agreed – that the committee noted the situation as described above.

6. HM Treasury Consultation on Cost Control Mechanism

JH advised members that HM Treasury has published a consultation on the recommendations made by GAD in their review of the cost control mechanism, two elements of which are whether past service costs should be included and whether the existing 2% breach corridor should be reviewed and expanded to 3%; perhaps with the intention of avoiding breaches in the future.

The consultation recognises that the LGPS as a funded scheme with its own cost management arrangement is different, which provides the opportunity to get the Board's own process more aligned with the Treasury's arrangement.

JH explained that three options could be considered to provide closer alignment between a reformed HMT cost control mechanism, and a revised SAB process:-

- Option 1: Adjusting the economic check which could take into account average discount rates at a previous valuation rather than the SCAPE rate;
- Option 2: Replacing the economic check with an affordability review comprising a subjective review of a wide range of factors undertaken by an independent panel which could be the Board;
- Option 3: Replacing the economic check with the SAB process.

GG said that there was no case for change and that a 3% corridor will have more impact if breached either way. Funded and unfunded schemes must also be treated differently.

MD pointed to the difficulty of adopting different discount rates and methodologies across the four firms and 86 administering authorities. She suggested whether a neutral measure could be agreed amongst the four actuarial firms?

GJ said that he is concerned about the impact discount rates would have under option 1 and about the time allowed for consultation. He asked if a request for an extension could be made. JH responded by highlighting the very tight timetable of the Public Service Pensions Bill and the potential needs for measures to be added to reflect any change to the cost control mechanism.

Rachel Brothwood (RB) welcomed the recognition that the LGPS is different and agreed that the issue of affordability will be riddled with difficulties. She also commented that there should be alignment with the s.13 process.

MS supported MD’s comments on the need for simplicity and a consistent approach on discount rates. Under the economic check there should be no scheme member improvements if scheme costs are increasing, and vice versa.

AM advised members that there needed to be clarity about what the economic check will be and that it will be important to take into account the past effect of investment returns.

CM supported the points made by AM.

GM suggested that HM Treasury probably wouldn't want the same for funded and unfunded schemes.

AM questioned whether the actuarial firms should do their own agreed response?

Agreed – that Options 1 and 2 should be pursued.

Action - the Secretariat to draft a response to HM Treasury's consultation for circulation to members for comment.

7. MHCLG Regulatory Update

TC advised members that all relevant updates had already been covered in the meeting apart from the preparatory work MHCLG is undertaking on a consultation on the scheme's TCFD reporting framework. The consultation is expected in the Autumn.

Agreed – that the committee noted the situation as described above.

8. AOB

GJ asked whether any progress has been made on a particular ill-health retirement case that he had referred to the Secretariat. JH explained that the issue was more about employment rather than pensions law, and that an ill-health retirement pension must be paid where a dismissal is made on ill-health grounds.

9. The date of the next meeting will be the 13th September 2021 on a hybrid platform.

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