

Cost Management, Benefit Design and Administration Committee

MEETING OF 15TH NOVEMBER 2021

ITEM 5 PAPER B

COST CONTROL 2016 AND 2020

2016 Scheme Valuation and SAB cost management

Background

1. As reported at the last meeting of the committee the Board, at a special meeting on 1st July, considered the paused 2016 scheme valuation, HMT cost control mechanism and its own cost management process.
2. In particular the Board considered the status, and the method for the inclusion, of McCloud costs in that process. The agreement reached by the Board and the subsequent letter to MHCLG (as it was then) were subject to the final publication of HMT Directions not diverging from assumptions used in reaching the outcome.
3. As set out in the [18th August 2021 letter to the then minister Luke Hall MP](#) the Board agreed to spread McCloud costs over a 10-year period (rather than the 4 used by HMT) resulting in an outcome of 19.4% against a target cost of 19.5%.
4. Despite the slight shortfall in cost the Board agreed not to recommend any scheme changes, in particular citing the unwelcome impact of having to backdate any changes to April 2019 would have on already hard-pressed administration teams. However, the Board has set out its determination to revisit third tier ill health and contributions for the lowest paid members with the view to making recommendations in these areas separately to the cost management process.
5. Finally, the Board expressed its concern around the method used to include McCloud costs in the HMT cost control mechanism

Update

6. The [HMT Directions](#) were published on 7th October 2021 and the outcome of the SAB 2016 cost management process together with the letter to Luke Hall MP have now been published on [the cost management page](#) of the Board website.

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7. [A formal 'letter before claim' has been submitted by the FBU](#) to government in advance of an application for a Judicial Review of the inclusion of McCloud costs in the 2016 scheme valuations and HMT cost control mechanism. The JR application enjoys widespread support across the Trade union movement including Trade Unions represented on the LGPS SAB.
8. Should the application go ahead it is not anticipated that any hearing would be before next spring/summer.

2020 HMT cost control mechanism consultation

Background

9. On 24th June 2021 HMT published a consultation on changes to the cost control mechanism following a review by the Government Actuary. There were 3 proposed changes to the existing mechanism, the 1st would change the mechanism to operating only in the reformed schemes; the 2nd would widen the “corridor” from the existing 2% margin to 3%; and the 3rd would introduce an additional “economic check” when there is a breach of the mechanism to ensure that broader economic conditions are considered before any breach is implemented.
10. On 19th August 2021 the Board submitted its [response to the consultation](#). The response asked for a greater degree of integration between the HMT and SAB processes and expressed concerns around the use of the SCAPE rate in the proposed economic check.

Update

11. On 4th October HMT published its [response to the consultation](#). The response confirms that the mechanism will, from the 2020 scheme valuation, move to a reformed scheme only design with a 3% corridor and will introduce an economic check.
12. Although not directly addressing the concerns of the LGPS the response does acknowledge them and commits to discussing with stakeholders appropriate ways to introduce these changes, how the E&W SAB cost management process can be adapted and how the principle of that process could be extended to the Scotland and NI schemes.

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13. The secretariat has met with HMT officials to discuss the response and were assured that options to further integrate a reformed SAB process will be seriously considered.
14. The Board will be asked to review its cost management process in the light of the government response and a more detailed paper on this subject will be brought to the next committee.

Recommendation – that the committee notes the contents of this report