

Scheme Advisory Board

HYBRID MEETING – 7TH MARCH 2022

ITEM 9 PAPER G

COST MANAGEMENT, BENEFIT DESIGN AND ADMINISTRATION COMMITTEE

ACTIONS AND AGREEMENTS FROM MEETING OF 14TH FEBRUARY 2022

PRESENT

George Georgiou	Members (GMB)	Chair
Sean Collins	Practitioners	
Emma Mayall	Practitioners	
Simon Taylor	Practitioners	
Kevin Gerard	Practitioners	
John Neal	UNITE	
Glyn Jenkins	UNISON	
Graeme Muir	Actuaries: Barnett Waddingham	
Louise Lau	Actuaries: Barnett Waddingham	
Michelle Doman	Actuaries: Mercer	
Becky Durran	Actuaries: Aon	
Catherine McFadyen	Actuaries: Hymans Robertson	
Con Hargrave	DLUHC	
Sheila Owen	DLUHC	
Brian Allen	GAD	
Jeff Houston	LGA - Board Secretary	
Joanne Donnelly	LGA – Deputy Board Secretary	
Bob Holloway	LGA – Pensions Secretary	
Gareth Brown	LGA – Pensions Analyst	

Welcome, introductions and declarations of interest

1. The Chair welcomed all in attendance to the meeting and introduced a new member, Simon Taylor, who replaces Rachel Brothwood. There were apologies from Jonathan Teasdale (Aon) and no declarations of interest.
2. The Chair set out handling arrangements for the virtual meeting.

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Matters arising

3. At para 8 of Paper A Michelle Doman (MD) requested the reference to her surname should be amended from “Dorman” to “Doman”

The Committee agreed that the following sentence requested by MD should be substituted in bullet points 5 and 6 of paragraph 27 - “The better the quality of the data, the less the need for the Actuary to make prudent estimates of missing data, which could lead to a lower funding cost”.

Exit Cap and McCloud Update

Exit Cap

4. Jeff Houston (JH) reminded members that DLUHC’s proposals on new 95K cap provisions are still awaited.
5. Glyn Jenkins (GJ) enquired about the statutory guidance on special severance payments. In response Con Hargrave (CH) confirmed that this is with Ministers for consideration.

McCloud

6. JH advised members that a raft of LGPS specific amendments have been introduced to the PSPJO Bill to provide the LGPS with the necessary remedy powers. These cover various issues including aggregation, excess teachers’ service and scope. On scope, JH reminded members that the new clause will bring the LGPS into line with other public service schemes by extending the scope of McCloud remedy to those with membership of the LGPS both on and before the 31st March 2012 (where there is no disqualifying break in service).
7. JH asked CH if administering authorities will need to find those scheme members affected by the change. In response CH said that this would be covered in the government’s response to the consultation but suggested that administering authorities may wish to start looking through their records. CH also confirmed that report stage of the Bill will be on the 22nd February.
8. JH further advised that other amendments to the Bill included one to take forward the government’s manifesto commitment on boycotts, divestment and sanctions and two on climate change from the Green Party.

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9. In response to a question on timing from JH, CH confirmed that the intention is for regulations to bring the remedy period to a close to be in place by the end of July this year.
10. JH advised members that there are provisions in HMT's Finance No.2 Bill, currently passing through Parliament, that will be relevant to the LGPS including the need to ensure that the late payment of lump sums as part of the McCloud remedy are regarded as authorised payments.
11. GG advised members that the judicial review lodged by a number of trade unions is progressing with a hearing now expected to be scheduled in May this year. A separate claim issued by the BMA, but on effectively the same grounds, will be "rolled up" with the other unions' judicial review.

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

SAB Cost management policy paper

12. JH reminded members that HMT is amending its own cost control arrangement via provisions in the PSPJO Bill, and that this led SAB to consider and agree that corresponding changes should be made to its own cost management arrangement. These include:
 - Better integration to formalise the connection between the two processes and to set out how decisions are made and by whom;
 - A closer match between what happens in both processes, in particular by restricting scope to just the reformed scheme but allowing the LGPS to take into account fluctuations in underpin costs;
 - The introduction of an economic check in line with HMT's process but allowing the LGPS to use a more appropriate scheme discount rate rather than SCAPE;
 - A change from the existing 2% corridor to 3% whilst retaining the existing "may, should, must" criteria, and
 - Flexibility to vary the employer/employee contributions ratio depending on circumstances.

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13. JH suggested that in conjunction with the actuarial firms some work should be undertaken to test various scenarios to establish whether any of the above proposals could result in undesirable outcomes.
14. GJ asked whether the scheme being mostly fully funded would have an impact on the discount rate. In response JH explained that it should not have any effect given that the discount rate is based on assumptions of future investment returns.
15. In response to a question from GJ regarding the impact that high inflation might have on the discount rate Graeme Muir (GM) explained that what might happen with inflation in the future is difficult to predict with any degree of certainty, and that what's key is the likely future trend rather than short-term "spikes".
16. On the contribution ratio proposal Catherine McFadyen commented that there are often scenarios when employers are reasonably paying less in contributions than employees, the obvious example being an employer in a surplus position very close to exit may be paying nothing. Provision for this flexibility should be allowed for.
17. Sean Collins (SC) asked whether the proposal to include an assessment of the costs of the underpin going forward would need to be amended in light of the cost control judicial review decision going against the government. In response JH agreed but noted that the impact was likely to be small given most of the costs were already taken into account.

Agreed – that the objectives set out in Paper B are submitted to SAB for consideration and approval

Compliance and Reporting Committee Update

18. Jo Donnelly (JD) advised members that applications have been invited over recent weeks for the position of Chair of the new Committee. The applications will now be considered and approved by CIPFA, as agreed in the Committee's terms of reference. Good progress is also being made to populate the rest of the membership. The new Chair will hopefully attend the next Board meeting on 7th March, with the Committee's inaugural meeting as soon as a mutually agreeable date can be found.

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

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2019 Section 13 Report

19. Bob Holloway (BH) reminded members that under section 13 of the Public Service Pensions Act 2013 GAD is required to report at each triennial valuation against the three criteria of consistency, solvency and long term cost efficiency.

20. Members were advised that the report into the 2019 fund valuations included the three recommendations set out in Paper C for SAB to take forward. BH explained that in a similar situation following publication of the 2016 report a series of roundtable meetings with the actuarial firms, the then MHCLG and GAD were held to discuss how the recommendations to SAB should be taken forward. The Committee was asked to agree that the same approach should be undertaken for the recommendations made in the 2019 report.

Agreed – that SAB is recommended to task the Secretariat to set up a range of meetings with scheme stakeholders to discuss the 2019 recommendations with the aim of preparing a paper for the Board's consideration.

Pension Fund Annual Report Update

21. Gareth Brown (GB) advised members that preparation of the 2021 scheme annual report is progressing well although the problems surrounding external audit and the resultant delay in some local authority accounts being signed off still remains.

22. Members were further advised that about 50% of net asset statements have been looked at but that are about 36 fund authorities whose reports remain unaudited, and a small number with no published draft accounts or who have not responded to emails.

Agreed – that the Committee notes the position as set out above

DLUHC Regulatory Update

23. CH advised members that the pensions team is increasing in capacity with Paul Duggins recruited recently to work on the SAB's good governance action plan.

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24. Members were further advised that a number of consultations and a set of regulations are expected in the Summer to deal with a number of different issues, in particular the equality issues arising from recent court cases and also including climate risk/TCFD reporting, pooling guidance and proposals arising from the recent Levelling Up White Paper.

25. GJ asked what progress is being made with Fair Deal. In response CH confirmed that this is still being looked at with the intention of coming forward with a consultation in May or June this year and that the increasing size of the DLUHC policy team should help to move this forward.

Agreed – that the Committee notes the position as set out above

AOB and date of next meeting

26. Simon Taylor (ST) asked whether the issues surrounding external audit should be examined by the Committee. In response JH explained that this would be first on the agenda of the new Compliance and Reporting Committee.

27. GJ raised the issue of the gender pensions gap within the LGPS and suggested that work should be undertaken to assess the position given that the scheme is likely to report improvement.

28. GG took the opportunity on behalf of Committee members to wish Jeff Houston a happy retirement when he leaves the LGA at the end of March. On behalf of members GG thanked Jeff for his help and support over many years.

29. The date of the next meeting is the 16th May 2022.