

Scheme Advisory Board

Luke Hall MP

Minister of State (Minister for Regional Growth and Local Government)

Fry Building

2 Marsham Street

SW1P 4DF

18th August 2021

Please reply to jeff.houston@local.gov.uk

Dear Luke

Local Government Pension Scheme: Scheme Advisory Board Cost Management 2016 and McCloud costs

I am writing to you in my capacity as Chair of the Local Government Pension Scheme Advisory Board in England and Wales.

On 1st July 2021 the Board met to discuss the outcome of the 2016 cost management process which was 'unpaused' in line with the HMT cost control mechanism following the Chief Secretary to the Treasury's Written Ministerial Statement dated 16th July 2020. The Board considered the inclusion of McCloud costs in the process and agreed the following recommendations.

- To use a spread period of 10 years for McCloud costs, this being the point at which 60% of qualifying members are expected to have left the scheme.
- Agree that, subject to final figures from GAD indicating a small shortfall in costs against the 19.5% target, a recommendation to change benefits would not be made under this process. This would be in part a recognition that having to backdate any changes to April 2019 would be an additional burden on already overstretched administration teams.

Confirmation of a result of 19.4%¹ has now been received from GAD and therefore this letter is to inform you that the Board will not be making any recommendations for benefit changes as a result of the 2016 cost management process.

However, the Board agreed to revisit third tier ill health and contribution rates for the lowest paid via a separate process, with the objective of bringing forward recommendations in these areas for future scheme changes.

The Board makes the above recommendations in the context of the ongoing cost control mechanism process and the related Judicial Review. The Board also wishes to clarify that exercising its legislative duty to complete its own process does not diminish its concerns with regard to the manner by which McCloud costs have been included within the "unpaused" cost control mechanism.

¹ subject to final HMT directions and MHCLG McCloud consultations response

Scheme Advisory Board Secretariat

18 Smith Square, London SW1P 3HZ

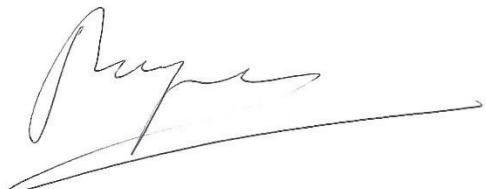
The Board secretariat is provided by the Local Government Association

On a related matter it has come to the Board's attention that the Home Office has provided funding to Fire Authorities in respect of the costs of enhancements to pension administration systems necessary to deliver the McCloud remedy.

I would therefore ask that a similar arrangement is made available to LGPS administering authorities to defray what will be significant costs, which are entirely outside of their control and directly result from the actions of government.

The Board secretariat would be happy to discuss these costs further and provide estimates to your officials.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Roger Phillips', is written over a horizontal line.

Cllr Roger Phillips
Chair of the Board