

Scheme Advisory Board (SAB)

Department for Levelling Up, Housing and Communities

Local Government Pension Scheme (England and Wales): Changes to the Scheme Advisory Board cost management process

LGF Pensions Team, DLUHC
2nd Floor
Fry Building
2 Marsham Street
London SW1P 4DF

LGpensions@levellingup.gov.uk

Response to consultation

This response is submitted on behalf of the Local Government Pension Scheme Advisory Board (England and Wales) which is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113.

The Board's purpose is to:

- Provide advice to the Secretary of State and to administering authorities on "the desirability of changes to the scheme" and "in relation to the effective and efficient administration and management" of the LGPS
- Provide a framework to encourage best practice, increase transparency and coordinate technical and standards issues across the sector

Membership of the Board includes equal number of voting members representing employers and employees. The Board is also supported by non-voting members and advisors.

There are around 18,000 employers participating in the Scheme and therefore there are representatives of some of the larger employer groups (further/higher education institutions and academy schools) on the Board and its sub-committees.

Secretariat services are provided by the Local Government Association and separate Advisory Boards have been established for the LGPS in Scotland and in Northern Ireland.

This response was compiled by the Board Secretariat following discussion both at the Board and at the Cost Management, Benefit Design and Administration Committee.

Yours sincerely,



Cllr Roger Phillips
Chair of the Board

Scheme Advisory Board Secretariat

18 Smith Square, London, SW1P 3HZ

The Board secretariat is provided by the Local Government Association

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Response to consultation questions

Preliminary remarks

We are grateful to the Department and officials for taking on board many of the points made by the Board in its response to the earlier consultation and the policy paper submitted in March of last year. We hope that an opportunity will be found to make these amendments to the 2013 Regulations ahead of the 2020 scheme valuation process being undertaken.

We note that there is no mention in this consultation of how the McCloud underpin is intended to work. For HM Treasury's own Cost Control Mechanism (CCM), the Government has been clear that from 2020 onwards this will only include reformed scheme costs. That aim is less meaningful for the LGPS E&W since the underpin is an integral part of the reformed scheme. There is no mention in this consultation of how this issue is to be dealt with in the SAB Cost Management Process (CMP) and so we assume that the Board will be able to determine that for itself, in line with its discretion to set other key assumptions (like discount rate). If that is not the case, then the Department needs to set out as part of this process how those costs need to be accounted for in the CMP process.

Responses to specific questions

Question 1: Do you agree that scheme regulations should be amended so that the SAB CMP is aligned with the scheme valuations (every 4 years) in the other public service pension schemes?

Yes, this is a sensible move and we believe that this was always the intention behind the 2013 Regulations.

Question 2: Do you agree that regulations should be amended to provide additional flexibility if the Board decide to make recommendations on cost?

Yes, we agree that there should be that flexibility. The Board is able to make recommendations only and while the Secretary of State (SoS) is obliged to have regard to them and give them due consideration there is no obligation on him to accept them. Therefore, it is slightly artificial to require the Board to put together a set of proposals that if implemented in their entirety would take scheme costs back to precisely the target proportion or share, when the SoS is not obliged to accept them as a package "all or nothing".

Question 3: Do you have any comments on our proposal in paragraph 25?

The Board agrees that the Regulations need to capture the position where there is a breach of the cost cap under the assessment made by the Scheme Actuary, but no action to remedy that is proposed because of the operation of the economic check. We understand that there would need to be a further consultation on the particular change made, and we reserve the right to comment on that further when we see it. Especially as we are yet to see in any detail what the economic check will consist of or how it will operate.

However, as a general observation the Board does believe that in the circumstances outlined above, it should still be able to make recommendations to bring scheme costs closer to the target cost. This would help to reduce the scale of response needed should the

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economic outlook change but the scheme costs remain beyond the revised corridor at the next valuation.

Question 4: Are you aware of any equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

The Board believes that under the Equalities Act 2010, any change to members' benefits or contributions consequent to the operation of the HMT CCM or the SAB's own CMP should be accompanied by an equality impact assessment. However, neither scheme nor fund actuaries have access to the necessary data on protected characteristics to meaningfully discharge this duty. The Board therefore urges the Department to ensure, either through a change to the 2013 Regulations or by statutory guidance, that administering authorities are provided with the legal authority to require all scheme employers to provide this data in respect of active scheme members. It should also clarify that there are no impediments under GDPR to the administering authority holding or processing scheme member data for this purpose. It should then commit to publishing a full equality impact assessment alongside any proposals to change member benefits or contributions.