

Consultation response

Local Government Pension Scheme: Changes to the Scheme Advisory Board cost management process

This [consultation](#) seeks views on proposals to amend the rules of the Local Government Pension Scheme (LGPS) in England and Wales. It covers amendments to the scheme regulations governing the Scheme Advisory Board (SAB) cost management process (CMP). The SAB 'cost management process' is provided for in regulation 116 of the LGPS Regulations 2013 and operates symmetrically, so that if valuations show that the costs of providing benefits have risen or fallen outside of a target level, recommendations must be made which would bring them back to target. A separate HM Treasury cost control mechanism (CCM) takes place under section 12 of the Public Service Pension Act 2013.

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?

Given that there is a desire for the output of the SAB CMP to feed into the HMT CCM then it is sensible for the timing of both to be aligned. Noting that a [consultation response is still outstanding from DLUHC on the valuation cycle for the local funding valuations](#), we would be concerned if moving the SAB CMP to a 4 yearly cycle was used to justify extending the cycle for local funding valuations. The reasons for our concerns are [set out in our response](#) to the earlier valuation cycle consultation.

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

We agree that the regulations should be amended to provide additional flexibility. Given the long timeframes associated with funding LGPS (and indeed all public sector) pensions, the associated uncertainty around the future and the environment within which the LGPS and its employers operate, having the current prescriptive approach significantly increases the risk of perverse outcomes. An element of discretion in the process will help reduce the risk of such outcomes occurring.

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

The proposal seems reasonable as it will help ensure consistency between the SAB and HMT mechanisms. If the economic check was excluded from the SAB mechanism then there is a risk of materially different, and, potentially, contradictory outcomes between the two mechanisms. However, we are concerned about the lack of detail on the level of rigour and/or consultation around how the SAB may implement any necessary change. Any change to reflect the economic check will need careful consideration, especially given that the SAB have previously committed to a desire to 'consider changes in the LGPS discount rate', which (we understand) will not be included in the HMT mechanism. Alongside the proposed regulatory changes, it would be preferable to have a statement about how any changes to reflect the economic check will be considered and checked to ensure they don't result in unintended outcomes.

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?

We are not aware of any such impacts by the proposals.