

Nick Orton

From: Lorraine Bennett <Lorraine.Bennett@local.gov.uk>
Sent: Wednesday, 30 January 2019 15:20
To: Lorraine Bennett
Subject: Written statement on Cost Cap process

[Pension manager and administration contracts]

Dear colleague

The Government has today published a written statement which announces a pause in the cost cap process for public service pension schemes pending the outcome of the application to appeal the McCloud case to the Supreme Court. A copy of the judgement can be found here <https://www.judiciary.uk/wp-content/uploads/2018/12/lord-chancellor-v-mcloud-and-ors-judgment.pdf>

The statement can be found here : <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-01-30/HCWS1286/>

Although the statement gives no timescales for the outcome of this case we understand it could be late 2019 or early 2020 before we know.

The LGPS Advisory Board (SAB) will now consider whether, given this announcement, it should withdraw the benefit change recommendations made to MHCLG as a result of its own cost cap process.

We understand that the LGPS could, if McCloud is upheld, be required to make changes to the underpin and that such changes would need to be taken into account in a revised SAB cost cap result.

In taking a view, the SAB will be aware that delaying benefit changes to possibly 2020 while backdating them to April 2019 would constitute a significant administrative burden on administering authorities and employers. Although SAB will immediately start considering next steps it should be stated that even if the SAB wishes to press on any changes to benefits can only be made with the agreement of Government.

Therefore although administering authorities may wish to continue to prepare for the SAB recommended cost cap benefit changes (as set out in our email of the 21st December) they should not anticipate their implementation unless and until such time as MHCLG formally consult on them.

This email has been sent on behalf of the Scheme Advisory Board.

Kind regards

Lorraine

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Pensions:Written statement - HCWS1286

WS **Treasury**

Made on: 30 January 2019

Made by: **Elizabeth Truss** (The Chief Secretary to the Treasury)

Commons **HCWS1286**

Pensions

The Government is announcing a pause to one element of the valuations of public service pensions, following a court ruling on part of the 2015 pension reforms.

The Coalition Government introduced reforms to public sector pensions, meaning most public sector workers were moved to new pension schemes in 2015.

In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the reforms amounts to unlawful discrimination. The Government is seeking permission to appeal this decision. If this is unsuccessful, the Court will require steps to be taken to compensate employees who were transferred to the new schemes.

A mechanism for assessing the value of pensions (the "cost control mechanism") was also introduced as part of the 2015 reforms. In September of last year, Government announced that provisional results indicated that the cost control mechanism would be engaged, triggering automatic changes to member benefits.

However, given the potentially significant but uncertain impact of the Court of Appeal judgment, it is not now possible to assess the value of the current public service pension arrangements with any certainty. The provisional estimate is that the potential impact of the judgment could cost the equivalent of around £4 billion per annum. It is therefore prudent to pause this part of the valuations until there is certainty about the value of pensions to employees from April 2015 onwards.

The value of public service pensions will not be reduced as a result of this suspension. If the Government is successful in court, we will implement the changes to employee benefits as planned. If the Government is defeated, employees will be compensated in a way that satisfies the judgment.

In order to ensure employers are meeting the increased costs of providing pensions, the part of the valuations of the unfunded pension schemes which sets employer contributions (which existed before the 2015 reforms) will continue. Employers in unfunded schemes have been planning for these changes in employer contributions to be implemented in April 2019, and the Treasury is in the process of allocating funding to departments to help with these costs.

Whatever the court outcome, we know the costs of providing public sector pensions are increasing. The 2015 reforms were to ensure public service pensions are affordable and sustainable in the long term, maintaining intergenerational fairness and ensuring the burden on the working population remains proportionate.

This statement has also been made in the House of Lords: **HLWS1253**