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**Cronfa Bensiynau Clwyd  
Clwyd Pension Fund**

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Your Ref/Eich Cyf

Our Ref/Ein Cyf

Date/Dyddiad August 2021

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Dear Sir/ Madam

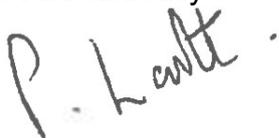
### **Public Service Pension Schemes Cost Control Mechanism Consultation**

Clwyd Pension Fund (administered by Flintshire County Council) is pleased to provide its response to HM Treasury's consultation on the Cost Control Mechanism. The response is by officers using delegated powers, after taking advice from the Fund's Actuary, Mercer.

The review of the mechanism is welcomed, along with recognition of some differences with the LGPS in terms of the proposed economic check. However, our response, whilst recognising the Government's conclusions, proposes a different package of measures for the LGPS to achieve the same objectives.

The Annex to this letter sets out our response to the questions set out in the consultation.

Yours faithfully



Philip Latham  
Head of Clwyd Pension Fund

Administered by  
Gweinyddwyd gan



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The Council welcomes correspondence in Welsh or English  
Mae'r Cyngor yn croesawu gohebiaeth yn y Gymraeg neu'r  
Saesneg

## **Annex 1**

### **Question 1 - Do you agree that a reformed scheme only design would achieve the right balance of risk between scheme members and the Exchequer (and by extension the taxpayer), and would create a more stable mechanism?**

We agree that a reformed scheme only design would create a more stable mechanism as there will be less liabilities in scope of the valuation. As such, any future cost variations will be smaller in absolute terms, resulting in a smaller change in the cost of the scheme when expressed in percentage of pay.

We would ask the Government to consider again whether to include liabilities of deferred and pensioner members in the reformed scheme at the date of the calculations. The inclusion of legacy benefits from the reformed scheme would increase inter-generational risk from a member perspective in that costs driven by former members of the reformed scheme would need to be met by benefit changes to existing members.

In addition, looking at only the reformed scheme would be difficult to achieve in LGPS given the impact of the underpin and this means that the risks of increases in the underpin costs would be borne directly by LGPS employers.

Both of the above could be addressed within the 'secondary check mechanism' (see question 4 below)

### **Question 2 - Do you agree with the Government's intention to widen the corridor? If not, why not.**

On balance, we would ask the Government to re-consider this in light of our other proposed changes.

Retaining the 2% corridor along with the adjustments to the mechanism to consider only the reformed scheme and an introduction of a 'secondary check' mechanism would manage costs more effectively.

Widening the corridor could potentially allow costs to get too far out of line before they are addressed. When benefit changes were triggered, these could need to be more significant in order to bring costs back into line increasing inter-generational unfairness as future members would bear potentially larger costs or receive larger improvement in benefits.

### **Question 3 – Do you think that a corridor size of +/-3% of pensionable pay is appropriate? If not, why not?**

See comments above.

### **Question 4 – Do you agree with the proposal to introduce an economic check?**

We welcome the proposed introduction of an economic check to avoid the outcome of the 2016 valuation. We also welcome the recognition that the SCAPE rate may not be the most appropriate measure for the LGPS.

As with most LGPS funds we have a significant level of investments in overseas markets, which do not move in line with UK GDP and as most LGPS funds we have a very broad and diverse investment portfolio, which again weakens the link between future expected returns and UK GDP.

For the LGPS we would propose a discount rate based on a best estimate of the expected return on the pool of assets held by the LGPS as a whole, over the duration of the LGPS membership. The best estimate would be proposed by GAD and agreed by the respective actuarial firms advising the LGPS as falling within a reasonable range. This would then retain consistency with the long term cost efficiency considerations in the Section 13 valuations for the LGPS as a whole.

However despite views expressed by Government we would suggest further considerations within a 'secondary check' mechanism which would form part of the economic check for the LGPS. This would limit the chance of outcomes arising from the 2016 cost review process happening in future and would more smoothly integrate the SAB process within the HMT process.

This could consider:

- Actual experience in the reformed schemes, including actual Fund returns received on the assets across the LGPS as his impacts employer costs.
- The costs or savings relating to the former members of the reformed scheme in a more holistic way than a mechanistic trigger.
- The impact of changes in the cost of the underpin in the LGPS

We would propose the review be undertaken by the Scheme Advisory Board. This would provide for a more joined up approach to cost management more generally within the LGPS. In making a recommendation, the Board would take account of the results of its own process.

**Question 5 – Do you think that the SCAPE discount rate, as it currently stands, is an appropriate economic measure for the cost control mechanism?**

**&**

**Question 6 – If the SCAPE methodology changes, and the Government considers that the SCAPE discount rate is therefore not an appropriate measure for the cost control mechanism, then do you think that a measure of expected long-term GDP should be used instead? If not, please set out any alternative measures that may be appropriate in this scenario. Please consider in the context of the separate review of the SCAPE methodology currently being undertaken by HM Treasury.**

As explained in 4 above we do not believe SCAPE discount rate is appropriate for the LGPS.

**Question 7 – Do you envisage any equalities impacts from the proposals to reform the cost control mechanism that the Government should take account of?**

We believe our proposed approach better addresses the inter-generational issue otherwise we have not taken advice on any other specific equality issues within the consultation proposals.