HM Treasury

Tom Scholar
Permanent Secretary
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

020 7270 4360 / 5158
Tom.scholar@hmtreasury.gov.uk
www.gov.uk/hm-treasury

Dame Meg Hillier MP
Chair of the Public Accounts Committee
House of Commons
London
SW1A 0AA
[by email]

23 February 2022

Dear Dame Meg,

Recommendation 5 of the Sixth Report of Session 2021-22: Public Sector Pensions

In the Sixth Report of Session 2021-22, the Public Accounts Committee (PAC) made a number of recommendations regarding the public service pension system. The fifth recommendation requested that HM Treasury write to the PAC with an update on the work the department has been doing to resolve the challenges presented by the McCloud judgment and cost control mechanism.

McCloud

The Government committed to legislate as soon as practicable to remedy the discrimination identified by the Court of Appeal in the McCloud judgment in its consultation, *Public service pensions: Changes to the transitional arrangements to the 2015 schemes*.[1] Subsequently, the Public Service Pensions and Judicial Offices (PSPJO) Bill was introduced in the House of Lords on 19 July 2021. The Bill has since gone through the Lords and continues to progress through the House of Commons, with Commons Committee having taken place on 27 January 2022 and Report set for 22 February.

The Bill proposes to address the discrimination retrospectively by offering all eligible members of the main unfunded public service pension schemes a choice between legacy and new scheme benefits in respect of any pensionable service between 1 April 2015 and 31 March 2022. All active members of the main unfunded public service schemes, regardless of age or joining date, will accrue benefits in the relevant reformed

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/900766/Public_Service_Pensions_Consultation.pdf

scheme from 1 April 2022. This is known as the prospective remedy and aims to ensure fair and equal treatment going forward.

In the funded Local Government Pension Scheme (LGPS), the remedy will work slightly differently to reflect the different design of transitional protection and the fact that all members are already in the reformed scheme. Having been moved into the reformed scheme, protected members in the LGPS were given an underpin to ensure that they would get a pension at least equal to that which they would have received in the legacy scheme. The LGPS remedy works by extending the existing underpin to all eligible members for the remedy period, which runs from 1 April 2014 to 31 March 2022 for LGPS members in England and Wales. All active members of the LGPS will continue to accrue benefits in the reformed scheme from 1 April 2022.

Towards the end of 2021, departments launched consultations on changes to individual scheme regulations to implement the prospective McCloud remedy. These consultations have now closed, and departments are considering the feedback received. Departments will publish consultation response documents over February and March, and any confirmed changes to scheme regulations will be implemented through secondary legislation by 1 April 2022. Retrospective changes to scheme regulations through secondary legislation are required to be in place by 1 October 2023 to ensure that the retrospective remedy is implemented no later than this point. Departments will consult on the content of these regulations in due course.

Cost control mechanism (CCM) reforms

As you know, the Government Actuary (GA) was asked to review the CCM after the provisional results at the 2016 valuations suggested the mechanism was too volatile and not operating in line with its objectives. His final report was published in June 2021 and contained several recommendations on how to improve the mechanism.[2] The Government consulted on three of the GA's recommendations and published its response in October 2021.[3] It decided to take forward all three proposals and is aiming to implement them in time for the 2020 valuations. They are:

- Reformed scheme only design: to remove any allowance for legacy schemes in the mechanism so it only considers past and future service in the reformed schemes;
- Wider corridor: to widen the corridor from +/-2% to +/-3% of pensionable pay; and
- Economic check: to introduce a check (linked to expected long-term GDP) so that a breach of the mechanism (and therefore benefit changes, or contribution rate

---

2 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/993416/Cost_Control_Mechanism_-_GA_Review_-_Final_Report_-_27_May_2021.pdf

3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1022938/CCM_RESPONSE.pdf

changes) would only be implemented if it would still have occurred had the impact of changes in the long-term economic assumptions been considered.

All three changes are expected to make the CCM more stable, as was made clear in the GA's review of the mechanism. A more stable mechanism means changes to member benefits or contributions become less likely. The proposed reforms thus help provide greater certainty regarding members' projected retirement incomes and level of contributions.

An amendment to the PSPJO Bill was tabled on 6 January 2022 to set the legislative framework for two of the three proposed reforms to the CCM, namely the reformed scheme only design and economic check. This amendment was discussed and passed at Commons Committee on 27 January.

In Northern Ireland, a Legislative Consent Motion (LCM) had already been passed for the PSPJO Bill prior to the tabling of the amendment. However, the CCM reforms constitute new policy and so a second LCM was required. This second LCM was passed in the Northern Ireland Assembly on 31 January, meaning the legislative framework for the two reforms will be in place for Northern Ireland as well as the rest of the UK.

The Government's third reform, the widening of the cost corridor, will be implemented through secondary legislation in due course.

Tom Scholar

Tom Scholar