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Public Service Pensions: Consultation on the discount rate methodology

Thank you for the opportunity to respond to the consultation on changes to the discount rate methodology.

I respond on behalf of the LGA. The LGA is a politically led, cross-party membership organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. In total, 328 local authorities are presently members of the LGA. The Local Government Pension Scheme (LGPS) in the UK is a scheme which has over 5.9 million members.

This letter sets out the LGA's views on the matters covered in the consultation.

I hope the above is helpful; if you have any questions, please do not hesitate to contact me.

Yours faithfully



Jeff Houston

Head of Pensions

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Response by the Local Government Association (LGA)

1. The LGA provides direct operational, policy and secretariat support to four public service pension schemes – the Local Government Pension Scheme (LGPS), the Teachers' Pension Scheme (TPS), the Firefighters' Pension Scheme (FPS) and the Police Pension Scheme (PPS). It also maintains an interest in developments in the NHS scheme as there are also local authority employees who have remained members of that scheme following the transfer of public health duties.
2. The LGA's role in relation to the schemes mentioned above is to represent the interests of the employer of members in any of these schemes where that employer is an LGA member or affiliated organisation.
3. In this instance the interests of those employers are the **long-term stability of employer contributions** combined with a **downward pressure on costs**.
4. This response does not propose to directly address the 7 questions posed in the consultation; save to emphasise the important points in the paragraph above.
5. The SCAPE discount rate has an effect, in some cases significant, on the costs of all public service schemes.

The LGPS

6. The SCAPE discount rate is used in a limited way in the LGPS to set actuarial factors relating to member benefits; and is also used in the LGPS cost control mechanism process so can affect scheme costs, and therefore employer contribution rates, in an indirect way.
7. Any significant movement in the rate could therefore impact indirectly on the costs of the scheme. We understand that any change in the SCAPE rate methodology would not impact on the cost control mechanism therefore this impact is lessened.
8. We would, however, make the point that continued use of the SCAPE rate in the cost control mechanism in relation to the LGPS does not reflect the costs of employers in the scheme. This point is made in more detail within the Local Government Pension Scheme Advisory Board's response to the consultation on that mechanism.

The unfunded public service pension schemes

9. In the unfunded public service schemes the SCAPE discount rate directly affects employer contribution rates through the scheme valuation process, as well as the cost control mechanism.
10. For example, the change to the SCAPE rate in the 2016 valuation significantly contributed to a 12.6% of payroll increase in employer contributions in the Firefighters' Pension Scheme.
11. Of key importance to employers represented by the LGA is stability. Frequent changes to the SCAPE discount rate, as have been seen in the last 5 years, pose considerable challenges to budgeting.
12. Furthermore, when such changes are at the levels of the increase seen in 2016 then it is vital that appropriate levels of funding are provided to avoid significant cost pressures on employers resulting in inevitable reduction in frontline services.
13. For reasons of long term stability, we would have preferred to stay with the current methodology to avoid another change in the way the SCAPE rate is calculated. However, given that the indicative results of staying with that methodology is a shift to CPI + 1.8%, which would be completely unaffordable without significant additional funding to meet the potential increases in employer contributions, it would appear that on this occasion we cannot achieve both a stability in methodology and reassurance about ongoing affordability. Therefore, our preference would be to adopt the Social Time Preference Rate, because indications are that it will produce a discount rate that is more affordable.
14. We are in agreement with the proposal to align the timing of the SCAPE discount rate reviews with the quadrennial public service pension scheme valuation cycle, as it seems that would contribute to our desire for greater stability.

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