Scottish Police Pension Scheme Advisory Board

MINUTES

Date: 19 March 2021
Location: MS Teams

Chair: Iain Coltman (SPPA)

Attendees: Alasdair Corfield (AC) (Police Scotland)
Calum Steele (CSt) (Scottish Police Federation)
Craig Suttie (CS) (Association Scottish Police Superintendents)
John MacLean (JMc) (Scottish Police Authority)

Adviser: George Russell (GR) (GAD
Robert Fornear (RF) (GAD)

Officials: Molly Wyllie (MW) (SPPA)
Peter Jamieson (PJ) (Police Division)
Marie Swinney (MS) (Police Division)

Observer: Sharon Dalli (SD) (Police Scotland)

Apologies: Mhairi Kinnaird (MK) (SPPA)
Tom Nash (TN) (SPPA)
Clare Campbell (CC) (SPPA)
Stuart MacArthur (SMac) (SPPA)

Secretariat: Claire McGow (CMc) (SPPA)

1. Welcome and Introductions

1.1. The Chair welcomed everyone to the meeting.

2. Conflicts of Interest

2.1 No new conflicts of interest declared.

3. Provisional Cost Cap results

3.1 GR apologised for the late distribution of papers ahead of the meeting, acknowledging it had not left the board sufficient time to analyse the findings. He then invited RF to begin his presentation on the Cost Cap Directions and a series of slides were presented to the group.

3.2 The Chair thanked RF for his presentation and invited any questions at this point.

3.3 CSt asked for an explanation of the decision to use a 4 year spreading period.

3.4 RF explained the spreading period is set out in HM Treasury's (HMT) draft Directions and the intention was to wrap up costs in this current valuation over the 4 years to prevent it from carrying over into future valuations.

3.5 CS enquired as to why more recent mortality and pay assumptions had not been used, given the current situation with the pandemic and recent pay increases.

3.6 RF explained that mortality assumptions are not produced annually or by GAD. The most recent available set are from 2019 which does not take any Covid data into account. He also noted that it is currently unknown how Covid will impact mortality figures in the long term. At this point GR added that HMT took the policy decision for calculations to be done as at 2019 but taking into account what we now know about the McCloud remedy.

3.7 RF then presented a series of slides on the Provisional Cost Cap Results, confirming that the provisional results are those that GAD expect to quote in their final valuation report subject to three key factors: that there are no changes to the draft HM Treasury (HMT) Directions; SPPA decides they are content with using 2016 valuation data to identify members in scope for the McCloud remedy; and that SPPA decides to adopt assumptions in line with GAD recommendations (having consulted the SAB).

3.8 RF stated that the provisional results highlight a ceiling breach of 13.2% above the employer cost cap. This would result in scheme benefits being unchanged as HMT are to waive the ceiling breach. Remedy accounts for 89% of eligible active members. The other 11% are not in scope as they joined post 2012.

3.9 GR added that there is a substantial difference between the value of the legacy scheme in comparison to the reformed scheme. This accounts for the large cost cap breach and even if there were to be a longer spreading period, there would still be a ceiling breach and the outcome would likely be the same.

3.10 The Chair noted that the result is comparable to the Firefighters' scheme (where the legacy scheme is also substantially more costly).

3.11 The Chair thanked RF and GR for the presentations and invited further questions.

3.12 CSt remarked that he was not surprised by the results and asked 3 questions:
(1) Do we know how the results compare to E&W?
(2) At what point do we look at costs beyond 2023?
(3) Acknowledging that the breach being waived is favourable in the circumstances, how long will that go on for?

3.13 RF provided the following answers:
(1) Yes the results are comparable with E&W.
(2) Costs will move into the employer contribution rate in 2024. The impact is not known as decisions on how the 2020 valuations will be undertaken will be set out in subsequent directions. It was noted that the current employer contribution rate introduced on 1 April 2019 contains an element of liability for remedy and this will be captured in the 2020 valuation with any surplus offsetting the remedy costs.
(3) The cost cap breach waive means no change to current benefits. Alongside the consultation response, HMT announced that existing employer rates will remain in place until 31 March 2024. The Cost Cap mechanism is being reviewed so how it will work in 2024 is unknown.

3.14 The Chair added that further detail on the Government Actuary's review of the Cost Cap mechanism is anticipated later this year.

3.15 CS advised that there is likely to be challenges to two aspects of Remedy as set out in HMT’s consultation response. Firstly, those who were protected by virtue of age (over 45) will lose that protection and be moved to the 2015 scheme; and secondly the decision to limit scope to those in service at 1 April 2012. He then questioned how these challenges might impact on the assumptions?

3.16 RF responded that on the first issue, there was a general assumption that most age-protected officers would be retired by 2022. CS agreed but suggested that there would still be a group who will continue to serve beyond 2022. RF stated that this would slightly increase costs. On the second point, if the date were to be moved then it would allow more access so again costs would increase. Generally, any improvements will increase costs.

3.17 The Chair asked RF if GAD would be able to produce modellers.

3.18 RF replied that if groups were identified, GAD would be able to do this.

3.19 GR stated that the outcome of the Cost Cap calculations would be the same if it were to include more members.

3.20 JMc asked about the quality of data and if there were any plans for improvement.

3.21 RF explained that GAD check the quality of data and if anomalies are identified, that particular member is replaced with an average member from the member group. He commented that data maintained by SPPA is generally of a good quality.

3.22 JMc asked if the data report from the 2016 valuation could be re-circulated.

AP – recirculate 2016 data report

3.23 AC enquired about the £380 million cost over the 4 year period and commented that some of those years have already passed.

3.24 RF agreed but reminded the group that we are finalising the 2016 valuations and there is no real issue as there are no changes to benefits at this time. However, there will be a deficit in 2020 valuations as there will be a reset from 2016. The McCloud costs will be fixed into the 2020 valuation.

3.25 The Chair reaffirmed that the employer contribution rate continues until 2024.

3.26 The Chair then went on to discuss next steps. SPPA are to agree the assumptions on behalf of the Scottish Ministers. SPPA will confer with the SAB on this and seek views. He also brought to the attention of SAB members a quirk in the scheme regulations. The regulations require that where there is a cost cap breach, Scottish Ministers are required to consult with the SAB about returning costs to the target cost. However, as HMT have waived the breach, there is no need to consult with SAB. Advice is to be sought on how to circumnavigate this requirement, which may ultimately be delivered through changes to primary legislation.

3.27 At this point the Chair asked for any views on communications. It was agreed that the key message is that 2015 scheme benefits remain unchanged and other technical aspects of the valuation would be contained in the supporting valuation documentation.

3.28 The Chair noted views and added that SPPA's website would be updated.

3.29 The SAB agreed that allotted time had passed the remaining agenda items would be followed up by email.

3.30 The Chair thanked all for attendance and proposed that the SAB Secretariat would be in contact within the next few weeks to arrange a full SAB.