Strategy & Partnerships Scrutiny Committee – 15 March 2012

CHANGES TO THE LOCAL GOVERNMENT PENSION SCHEME

Report by the Assistant Chief Executive and Chief Financial Officer

Introduction

1. At its December 2011 meeting, the Pension Fund Committee agreed a response to the Government's consultation on increases to employee contributions to be effective from April 2012. This consultation was seen as part one to a two part process to reform the Local Government Pension Scheme following the fundamental review of all public sector pension schemes by Lord Hutton.

2. This report sets out the latest position on LGPS reform, which the Pension Fund Committee will consider at its meeting on 16 March 2012, including the new Heads of Agreement and the New LGPS Project 2014.

LGPS Reform

3. Shortly after the December Committee meeting and the submission of the Pension Fund Committee's consultation response to the employee contribution changes, the Local Government Association and representatives of the local government Unions (Unison, GMB and Unite) issued a joint statement. This statement set out jointly agreed principles to form the basis of further negotiations to deliver a single set of reforms to the LGPS.

4. This joint statement of Heads of Agreement was subsequently endorsed by the Secretary of State for Communities and Local Government as the basis for future work. He therefore confirmed that he would take no action as a consequence of the consultation on employee contribution changes whilst the process to implement the Heads of Agreement was progressing satisfactorily.

5. The Heads of Agreement include 10 principles in respect of new scheme design and a further 7 principles in respect of future management and governance. It also set out a clear timetable to enable the reforms to be implemented with effect from April 2014, a year earlier than the previous target.

6. The principles were based on the previous framework set out by Government Ministers. The key principles covered in the Heads of Agreement include:

   - A single solution, with regulations in place by March 2013, to allow the impact to be included in the 2013 Valuation work, and full implementation from April 2014
   - The single solution to be on the basis of career average revalued earnings

- If the financial constraints set by Treasury by can be met by scheme redesign, then zero contribution increases for all or the vast majority of scheme members is acceptable
- Some element of choice (around contributions and benefit levels) to be introduced to support the recruitment and retention of scheme members
- Retention of flexible retirement arrangements between the ages of 55 and 75, with benefits adjusted around a normal pension age linked to the state pension age.
- The retention of admission body status to protect scheme members out-sourced from current scheme employers
- Cost efficiencies to be explored through more effective procurement and provision of both administration and investment services.
- Cost sharing mechanisms to include both a collar and cap on future employer contribution rates to ensure employers neither unduly reduce their contributions, nor face excess increases.
- Focus on negotiated solutions between stakeholders rather than Government regulation to address issues where employer cap/collar set to be breached

7. The Heads of Agreement set out the “big ticket” issues which need early resolution as contribution rates, accrual rates, revaluation rates, protections, employer cap/collar levels and the cost sharing mechanism.

8. A project group of key stakeholders including officials from the lead unions, the Local Government Association and the Department for Communities and Local Government has been established and has been meeting weekly since the beginning of January. Unite initially withdrew from the discussions, but subsequently re-joined the project meetings.

9. All parties are seeking to agree proposals on the big ticket items, which they can issue for consultation with their members by April 2012. It is then hoped that the statutory consultation on the regulatory changes can begin in September/October 2012 to enable the final regulations to be laid in Parliament and agreed by March 2013.

10. Agreement by March 2013 is seen as critical, so that the Actuaries can base the 2013 Valuation exercises for each fund on the basis of the new look scheme, so that cost savings can be delivered from April 2014 when the valuation results are effective

11. This timetable would also provide a full year to ensure the new look scheme can be properly communicated to all current and potential scheme members, and also allow sufficient time for the development and implementation of any system changes.

12. In the event that it appears the timetable will not be met, or that agreement will not be possible, the Government have retained the right to impose employee contribution increases following on from the suspended consultation. Similarly the Unions have retained the ability to call for further industrial action.

RECOMMENDATION

13. **The Committee is RECOMMENDED to note the latest position on the reform of the LGPS.**

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Background papers: Various papers from The New LGPS 2014 Project Website

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