

ITEM NO: 10

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| Report To: | Pension Fund Management Panel |
| Date: | 9 September 2011 |
| Reporting Officer: | Peter Morris, Executive Director of Pensions |
| Subject: | LGPS UPDATE |
| Report Summary: | The report provides information about recent developments regarding the Scheme. |
| Recommendations: | <ol style="list-style-type: none">1) That the Fund continues in its attempts to obtain the best possible LGPS for both members and employers, whilst recognising the conflicts that arise.2) That a letter be sent to the Government recommending that the consultation planned for the Autumn focuses on delivering the required savings in 2012/13 (rather than the 3 year package). |
| Financial Implications: (Authorised by the Borough Treasurer) | The Government intends to reduce the cost of the Scheme nationally to employers by £900 million pa, with these savings to start being phased in from April 2012. The cost to employers of the replacement Scheme (probably to take effect in 2015) will be capped, but this cap has yet to be determined. |
| Legal Implications: (Authorised by the Borough Solicitor) | The LGPS is a statutory scheme and consequently it is crucial that changes are understood and implemented. |
| Risk Management | There is a risk that the changes to the Scheme in 2012 could lead to a further increase in the number of active members opting-out. This is also the case for 2015 and beyond, if the replacement Scheme is not regarded by employees as being both worthwhile and affordable. It is intended that the Panel will continue to respond to consultations to try and mitigate the impact on opt outs. It is also intended to continue to communicate with members, updating them on developments and emphasising the long term value of the Scheme. |
| ACCESS TO INFORMATION | NON – CONFIDENTIAL |
| | This report does not contain information which warrants its consideration in the absence of the Press or members of the public. |
| Background Papers: | There are no background papers to this report. Further information can be obtained by contacting Peter Morris, Executive Director of Pensions, 0161 342 2952 or via email: peter.morris@tameside.gov.uk |

1. LGPS DEVELOPMENTS

1.1 On 19 July 2011 the Chief Secretary to the Treasury, Danny Alexander, published a written Ministerial Statement (**Appendix 1**). This reported that:

- (i) the Government continues with its review of the long term affordability and sustainability of public sector pensions, with the Government believing that reform is necessary, following Lord Hutton's recommendations;
- (ii) the Government and the TUC have decided that to further the discussions they have been having, discussions within the individual schemes should take place. So rather than discussions about public sector pensions as a whole, discussions should also take place regarding the LGPS, the NHS Scheme, the Teachers Scheme and so on. These scheme discussions are to deliver "initial proposals for reformed schemes by the end of October this year";
- (iii) the Government intends to ensure that "the pensions individuals receive at normal pension age would be broadly as generous for low and middle income earners as it is now";
- (iv) the Government is also progressing its plans to make short term savings (with the LGPS to be treated separately, following lobbying from the GMPF, amongst others – see later), but is committed to protecting the low paid. Consequently there should be no increase in employee contributions for those earning less than £15,000 a year and no more than a 1.5% increase in total for those earning £15,001 to £21,000 a year. Any increases in contributions are to be phased in over three years, starting in 2012/13. The Government also proposes that higher earners will pay more, but their contributions should increase by no more than 6% of pay by 2014/15, and by no more than 2.4% in 2012/13; and
- (v) the "Government remains committed to securing the full Spending Review savings of £2.3 billion in 2013-14 and £2.8 billion in 2014-15, requiring each scheme to find savings equivalent to a 3.2 percentage point increase. Scheme specific discussions will make proposals on how these savings are achieved and will be required to make proposals by the end of October this year. For local government, the Government recognises that the funded nature of the scheme puts it in a different position and will discuss whether there are alternative ways to deliver some or all of the savings."

1.2 On 28 July the DCLG sent a letter about the Ministerial Statement, as it applied to the LGPS. Their letter is attached as **Appendix 2**, but in summary:

- (i) regarding the changes to be made in April 2012, the Local Government Group (representing employers) and the local government trades unions were invited by the Secretary of State, Eric Pickles, "to establish a package of measures to secure the necessary short-term savings equivalent to the 3.2 percentage point increase in other schemes". The Local Government Group and the unions held their first joint meeting on 27 July 2011, with further meetings on-going. Peter Morris is attending these meetings to give input from an administering authority perspective.
- (ii) The Secretary of State asked that the outcome of the discussions between the LG Group and the trades unions be reported to him by 9 September, to allow time for the formal statutory consultations that must take place before the Scheme's rules can be changed. This is an exceptionally difficult timetable.

1.3 The Policy Review Group, led by DCLG is also continuing to meet frequently. At the last meeting DCLG published a timetable for the implementation of the changes next April, and

for the introduction of the replacement Scheme in 2015. This is contained in their document PRF66/11, that is attached as **Appendix 3**.

- 1.4 The DCLG also issued a template for the 2015 replacement public sector schemes at the last PRG. This is their document PRG65/11 and is attached as **Appendix 4**. This confirms much of what has already been stated, eg. that the Government intends to change to career averaging, and within an overall cost ceiling. Normal pension age will also be linked to State pension age. The accrual rate remains a major unknown, which will be “determined centrally in due course”.
- 1.5 Of particular concern is that “average member contributions should be assumed to be 3.2 percentage points above their current level”. The Government has however, and as is referred to above regarding the April 2012 changes, recognised that the LGPS is different, and has provided employers and trades unions the opportunity to produce savings of 3.2% other than by simply increasing employee contributions. It is therefore hoped that any agreement that is reached will be carried forward to the negotiations regarding the 2015 LGPS.
- 1.6 The need to deliver the short term savings and consider the new scheme design is being treated as 2 separate exercises. The ideal situation would be reach agreement on the new scheme design from which the short term savings could be derived. Assuming this is not possible in the short time available, there is a good case for suggesting to DCLG that the matters for consultation in the Autumn focus on delivering the year 1 savings only. This may enable in years 2 and 3 the scope to integrate the short term savings with the new scheme design. It would be very disappointing if the required short term savings are not part of the long term development of the scheme.

2. RECOMMENDATION

- 2.1 That the Fund continues in its attempts to obtain the best possible LGPS for both members and employers, whilst recognising the conflicts that may arise.
- 2.2 That a letter be sent to the Government recommending that the consultation planned for the Autumn focuses on delivering the required savings in 2012/13 (rather than the 3 year package).