

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel
Date:	14 September 2011
Title:	Government review of public sector pensions - update
Reference:	3215
Report From:	County Treasurer

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1. **Executive Summary**

- 1.1 The purpose of this paper is to update the Panel on the progress of the Government review of public sector pensions.

2. **Government review of public sector pensions**

- 2.1. Following the publication of Lord Hutton's final report on the independent review of public sector pensions in March 2011, a summary prepared by Aon Hewitt was included on the Agenda for the Panel's meeting on 17 June 2011.
- 2.2. Since then, the Government and the Trades Union Congress have held a series of meetings covering Lord Hutton's key recommendations and the Government's proposed employee contributions increase.
- 2.3. The Secretary of State for Communities and Local Government wrote to the Local Government Group on 20 July 2011 inviting discussions to commence on the LGPS. This letter refers to a Written Ministerial Statement issued by the Chief Secretary to the Treasury on 19 July 2011 describing the progress that had been made and outlining the process going forward. This confirmed that separate discussions would be held with the unions for each individual pension scheme, including the local government pension scheme (LGPS). These documents are attached to this report for information as Appendix 1.
- 2.4. A further letter from Department for Communities and Local Government was issued on 28 July 2011 detailing the proposed processes and timescales. This document is attached to this report as Appendix 2.

3. Employee contributions

- 3.1. The Government remains committed to securing the full Spending Review savings from public sector pensions of £2.3bn in 2013/14 and £2.8bn in 2014/15. This requires each scheme to find savings equivalent to a 3.2% increase in employee contributions from April 2012. Scheme specific discussions are in progress with an overall deadline of October 2011 to develop proposals for achieving these savings.
- 3.2. The Government recognised that the funded nature of the LGPS places it in a different position to other public sector schemes. The Secretary of State has therefore invited the Local Government Group to conduct discussions with the local government trade unions to establish a package of measures to secure these short-term savings by 2014/15.
- 3.3. The measures could include alternative ways to deliver some or all of the savings, provide protections from contribution increases for the low paid, together with a consideration of other issues important to the longer term sustainability of the Scheme.
- 3.4. The Secretary of State has requested that outcomes of these discussions be reported to him no later than 9 September 2011 to allow the statutory consultation to begin by the end of September 2011.
- 3.5. The subsequent timetable would be as follows:
 - a 12 week statutory consultation exercise in October, November and December 2011 on amending regulations
 - consideration of responses and decisions by Ministers in early 2012
 - making and laying of the amending regulations as soon as possible thereafter
 - scheme changes coming into force on 1 April 2012.

4. Post-Hutton Reforms

- 4.1. In responding to the Hutton report, the Government has announced plans to introduce a cost ceiling for each scheme. The Government believes that this will ensure that public service pensions remain affordable and sustainable by setting a limit on the contribution made by employers and ultimately the taxpayer. These will replace the previously envisaged 'cap and share' mechanism for the LGPS.
- 4.2. The cost ceilings will be based on Lord Hutton's proposals but will go further and ensure that the pension individuals receive at normal pension age would be broadly equivalent to current levels for low and middle income earners.
- 4.3. Scheme level discussions will be held to deliver initial proposals for reform in headline terms by end of October 2011.
- 4.4. It is then planned to finalise detailed scheme design elements so that the relevant legislation can be introduced in the 2012/13 Parliamentary session. This will allow full implementation for April 2015.

4.5. No action is currently required at this stage. The County Treasurer will report further to the Panel when specific proposals for the LGPS have been published.

5. Recommendation

5.1. That the Panel note the report.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because progress on the Government's reforms should be noted.

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.



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 Government

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Dear Merrick

20 JUL 2011

LOCAL GOVERNMENT PENSION SCHEME IN ENGLAND AND WALES

The Chief Secretary to the Treasury announced on 19 July in a Parliamentary Written Statement that to progress the recommendations in Lord Hutton's report on public service pension scheme reforms, initial discussions should begin on a scheme by scheme level and, to achieve the savings target set out in the Spending Review, indicated that consultations would shortly commence on individual Scheme proposals for increases in employee contributions from April 2012. Proposals to consult on new tariffs for the Firefighters' Pension Schemes will emerge next month as part of that central process for the pay-as-you-go schemes. I enclose a copy of the Ministerial Written Statement, for information.

The Statement also made clear, in terms of the Local Government Pension Scheme in England and Wales, that the Government has concluded that the funded status of the Scheme places it in a different position to the pay-as-you-go schemes - a view expressed previously by the Local Government Group. On that basis, and within the context of the Government's wish to see savings to Local Government Pension Scheme employers of some £900million by 2014/15, I am inviting the Local Government Group to conduct discussions with the local government trade unions to establish a package of measures to secure the short term savings by 2014/15, equivalent to the 3.2 percentage point contribution increases in other schemes. This can include alternative ways to deliver some or all of the savings, provide protections from contribution increases for the low paid, together with a consideration of other issues important to the longer term sustainability of the Scheme.

To meet the necessary statutory-based timetable, I would welcome receiving the outcome of your joint discussions no later than 9 September. This will allow the necessary statutory consultation exercise to begin with Scheme interests, for twelve weeks, by the end of September. Following a careful consideration of all the responses, the final, formal stages of the amendment process can be finalised to ensure the new tariff, and any other measures, to be in place for 1 April 2012.

My officials are available at any time to assist in your discussions, if that would be helpful to the Group.

*Your ever
 Eric*

THE RT HON ERIC PICKLES MP

Written Ministerial Statement

Public Service Pensions Update

The Chief Secretary to the Treasury (Rt Hon Danny Alexander): The Coalition programme gave a commitment to review the long-term affordability and sustainability of public service pensions, and Lord Hutton's Independent Public Service Pensions Commission has demonstrated that reform is needed. At Budget, the Government made clear that it accepted Lord Hutton's recommendations as a basis for consultation with public sector workers, trades unions and others and that we would set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer.

The Government has already committed to retaining a form of defined benefit pension in the public sector and protecting accrued rights so that all the benefits that members have earned up to the point of change will be protected. Today, I would like to inform the House of the progress that has been made and the process going forwards.

The Government and the Trades Unions Congress (TUC) have held a series of constructive meetings to discuss public service pension reform which have covered Lord Hutton's key recommendations and the Government's proposed employee contributions increase. A basis for agreement has been established in several areas, but differences remain on some of the key recommendations.

The Government and the TUC have agreed that to further inform the discussions on Lord Hutton's recommendations, there should be scheme level discussions alongside the central process already established. Scheme level discussions will ensure a fuller understanding of the implications of reforms, before final conclusions are reached. These scheme level discussions will deliver initial proposals for reformed schemes by the end of October this year, allowing further work to finalise detailed scheme design before the Government introduces legislation in due course.

Lord Hutton's recommendations will inform these scheme level discussions and the Government will provide scheme-specific cost ceilings. These ceilings will be based on Lord Hutton's proposals, but will go further and ensure that the pension individuals receive at normal pension age would be broadly as generous for low and middle income earners as it is now. These cost ceilings will ensure that public service pensions remain affordable and sustainable, by setting a limit on the contribution made by the Government and ultimately the taxpayer.

Further to the rationale for short term savings set out in Lord Hutton's interim report, the Government announced plans to target £2.8bn savings per year by 2014-15 through public service employee pension contributions at Spending Review 2010. The scheme-by-scheme consultations for the unfunded public service pension schemes to deliver the first years' savings of £1.2bn will commence by the end of this month. Reflecting the Government's commitment to protect the low paid, the Government's has set out its preferred parameters for any design. There should be no increase in employee contributions for those earning less than £15,000 and no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis. It is proposed that higher earners will pay more but the Government has proposed a cap on the maximum increase of 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata

basis. These consultations will be completed by the end of October, in order to ensure implementation by April 2012.

The Government remains committed to securing the full Spending Review savings of £2.3bn in 2013-14 and £2.8bn 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.

I have today exchanged letters on these issues with the General Secretary of the Trades Unions Congress and copies of these letters have been deposited in the Libraries of both Houses.

HM Treasury
19 July 2011



Dear Colleague

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28 July 2011

LOCAL GOVERNMENT PENSION SCHEME

1. With the agreement of Ministers, this letter sets out the initial and medium term context for the Local Government Pension Scheme in England and Wales, following the Ministerial Written Statement by the Chief Secretary to the Treasury on 19 July 2011 to the House of Commons, and indicates anticipated next steps.

Ministerial Written Statement on Public Service Pension Schemes

2. The Chief Secretary's Statement to Parliament sets out the basis upon which the Government now intends to proceed to implement policies first announced in the Autumn Spending Review on employee contributions, and on taking forward initial scheme specific discussions for long term pension reform announced in Budget 2010.
3. The Government has accepted the broad principles set out in Lord Hutton's final report as a basis for consultation. Against the high level discussions held with the TUC, scheme specific discussions are now to take place on taking the principles forward. Long term reforms are unlikely to come into force before 2015.
4. The Government's position is that public service pensions will remain among the very best available, providing a guaranteed pension level for all employees. However, given that people are living much longer and so pensions become more expensive, people need to work for longer before drawing their pension. Employees are, therefore, being asked to ensure a fairer balance between what employees pay and what other taxpayers have to pay. The processes for taking this forward are described in more detail below in paragraphs 6- 9. For the longer term reform timetable, paragraphs 10-12 summarise the anticipated next steps.

5. The principle elements for public service pension scheme reforms, as set out in the Statement (which can be accessed at http://www.hm-treasury.gov.uk/press_83_11.htm; a copy is attached for ease of reference), are as follows:-
- central talks between Ministers and the trade unions will continue alongside scheme-specific discussions;
 - scheme-specific discussions are now to begin on wider reform arising from Lord Hutton's report;
 - cost ceilings will be set by 1 October by Treasury, based on Government Actuary's Department advice;
 - schemes will have the freedom to design the future shape of reforms within the cost ceiling and are subject to Treasury's approval of each scheme's longevity risk management arrangements;
 - using the LGPS' agreed cost ceiling, initial scheme specific proposals for reform in headline terms are required to be established by the end of October;
 - detailed scheme designs discussions will then continue to allow the relevant legislation being introduced in the Parliamentary session 2012/13 to allow for a 2015 implementation date.

Employee Contributions

6. The position of the Local Government Pension Scheme in England and Wales, in relation to employee contribution rate tariff reform, is specifically clarified in the Written Statement, as follows:-

"...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."

7. Following that clarification, the Local Government Group has now been invited by the Secretary of State to conduct discussions with the local government trade unions to establish a package of measures to secure the necessary short term savings in the LGPS equivalent to the 3.2% percentage point increase in other schemes. The package will include protections from contribution increases for the lowest paid. Other issues important to the long term sustainability of the LGPS may also be discussed.
8. The Secretary of State has requested the outcome of the discussions to be reported to him by 9 September in time to allow the formal, statutory consultation exercise to begin by the end of September.
9. The onward timetable from that point, as required by section 7 of the Superannuation Act 1972, is as follows:-
- a. a 12 week statutory consultation exercise in October, November and December 2011 on amending regulations;
 - b. consideration of responses and decisions by Ministers in early 2012;
 - c. making and laying of the amending regulations as soon as possible thereafter; and
 - d. scheme changes coming into force on 1 April 2012.
10. In parallel, the Scheme's Policy Review Group has initially discussed the context for these discussions, as indeed has the Local Government Pensions Committee's Officer Advisory Group. A pre-arranged meeting of the Local

Government Group and the local government trade unions took place on 27 July. A meeting of the Policy Review Group is now scheduled for 15 August. The extended consultation period will allow a continuing series of discussions across all Scheme interests as part of the process to ensure the most effective outcome for the Scheme as a whole, including additional meetings of the Policy Review Group.

Post-Hutton Reforms

11. The Chief Secretary's Written Statement sets out an indicative timetable for the anticipated scheme-specific discussions now to take place. The Government intends to set individual scheme cost-ceilings to ensure on-going affordability and sustainability. These will replace the previously envisaged 'cap and share' mechanism for the LGPS. The data stream aspects and adjustment to contribution provisions will remain in place or be modified as necessary.
12. The cost ceilings will be based on Lord Hutton's proposals, but will go further and ensure that the pension individuals receive at normal pension age will be broadly as generous for low and middle earners as it is now. The ceilings will ensure that public service pension schemes remain affordable and sustainable, by setting a limit on the contribution made by employers and ultimately, the taxpayer. Further details on how the cost ceilings are to be set will follow.
13. From that position, Schemes are being invited to provide initial reform proposals in headline terms by the end of October. The programme envisaged then is to finalise detailed Scheme design elements so that the relevant legislation can be introduced in the 2012-13 Parliamentary session. This will allow full implementation for April 2015.
14. This clearly requires a tight focus on the LGPS Policy Review Group and the supportive bodies around it who contribute and who have commented so much expertise to the present structure and Hutton process.
15. If, in the meantime, Scheme interested parties would like discuss any aspect of this work in relation to the LGPS, please contact Bob Holloway at Robert.holloway@communities.gsi.gov.uk to arrange a discussion.



TBJ CROSSLEY