City of Westminster

Executive Summary and Recommendations

	Superannuation Committee
Date:	**15 February 2012**
Subject:	**Pension Fund Regulatory Structure – Update on negotiations**

Summary

- This report provides an update on the current state of discussions that Officers are aware of in relation to the regulatory changes of the LGPS.

Recommendations

1. That the Committee note this report.

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Superannuation Committee

Date:	**15 February 2012**
Classification:	**For Publication**
Title of Report:	**Pension Fund Regulatory Structure – Update on negotiations**
Report of:	**Chief Operating Officer & Acting Director of Human Resources**
Wards involved:	**All**
Policy context:	**Effective control over the Fund's activities**
Financial summary:	The financial implications arising from this report are relative rather than absolute as it relates to the future structure of the fund.
Report Author:	**Jonathan Hunt** **Director of Corporate Finance & Investment**
Contact details	jonathanhunt@westminster.gov.uk 020 7641 1804

1. INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSION

1.1. In 2010, The Chancellor of the Exchequer asked John Hutton to chair the independent Public Service Pensions Commission, with the task:

> "To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights."

1.2. The Interim Report was published on 7 October 2010, and set out the work carried out by the Independent Public Service Pensions Commission to that point, together with thoughts of what might be considered in the final report. A copy of the Interim Report can be found at: http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf

1.3. The Final Report of the Commission was published on 10 March 2011, and made 27 recommendations, the key ones being:

a) a move from final salary to a career average revalued earnings ("CARE") structure for all schemes, with the indexation of such CARE benefits whilst in pensionable service being linked to earnings rather than prices

b) members' normal pension age in the future should be linked to State Pension Age

c) the introduction of a "cost ceiling" which would place an upper limit on the amount committed by Government to public service pensions over the long-term, with any breach of such ceiling triggering automatic mechanisms designed to bring costs back down

d) protection of accrued rights for existing members to include maintaining the final salary link for benefits which have already built up in the current schemes and

e) the introduction of a new formal regulatory framework to ensure the independent review of the governance of public service pension schemes, perhaps by the Pensions Regulator.

1.4. A copy of the final report can be found at: http://cdn.hm-treasury.gov.uk/hutton_final_100311.pdf

2. DEPARTMENT FOR COMMUNITES & LOCAL GOVERNMENT CONSULTATION

2.1. While Lord Hutton's report was seen to be the longer term solution, with changes (were they to be agreed) to be implemented from 2015, Government departments were also asked to make proposals for the interim that would look to make savings. In the case of the LGPS, the Department for Communities and Local Government (DCLG) were asked by HM Treasury to find savings of £900 million by 2014-15 (equivalent to the 3.2 percentage point contribution increases sought in the unfunded public service pension schemes).

2.2. DCLG published a consultation document in October 2010 which proposed two options for meeting the £900 million saving by increasing employees contribution rates and reducing the scheme's accrual rates. A copy of the consultation document can be found at: http://www.communities.gov.uk/documents/localgovernment/pdf/2004147.pdf

2.3. In an announcement to the House of Commons in November 2011, the Chief Secretary to the Treasury, indicated that the Government intended to offer protection to members within ten years of retirement and a preferred accrual rate of a 1/60th. However, while the DCLG consultation was running, the Cabinet Office and HM Treasury were having discussions with public sector representatives (unions, employer representatives) on restructuring public sector pension funds as envisaged by Lord Hutton.

2.4. The CLG consultation closed on 6th January 2012 and a copy of the response from Officers is attached as appendix one.

2.5. In the case of the LGPS, the on-going discussions have superseded the consultation, and an agreement on Heads of Agreement have been reached with the relevant unions. These Heads of Agreement are attached as appendix two.

2.6. In his statement to the House of Commons, the Secretary of State for Communities and Local Government set out the core parameters of the agreed new scheme design. These are:

a) a single solution to both the short and long term issues by the early introduction of the new Scheme in April 2014, with regulations in place by April 2013;

b) the single solution to be built on the basis of career average earnings;

c) can include zero increases in employee contributions for all, or the vast majority of members, provided that overall financial constraints set by the Government are met;

d) some elements of choice to encourage retention of existing membership and encourage new membership; and

e) flexible retirement age built around the Scheme's normal retirement age equal to the State Pension Age or age 65, whichever is later, and applies both to active members and deferred members (new scheme service only). If a member's State Pension Age rises, then normal pension age will do so too for all post 2015 service.

2.7. Thus the LGPS is likely to move to a career average scheme from April 2014 instead of April 2015. In the interim period it is likely that members of the scheme will not be expected to make higher contribution payments and the £900 million saving target will be achieved primarily through the move to career average.

2.8. Officers understand that the proposals set out in the DCLG consultation will not be implemented if final agreement is reached on the wider (and longer term) restructuring as described in the Heads of Agreement. In the event that the discussions on the Heads of Agreement reach an impasse, DCLG may look to revive some of their proposals.

3. TIMETABLE FOR SCHEME DESIGN

3.1. The target date for new LGPS regulations to be in place is 30 March 2013 to enable the actuary to value the fund under the new rules in the 2013 triennial valuation. The new regulations will result in future benefits being accrued within the fund reducing in value and thus allow scheme actuaries to reduce the cost pressure on employers certified contribution rates.

3.2. In addition a target date of March 2013 will give Administering Authorities, Employers and Unions the time to update members on the changes well before active benefits are affected.

3.3. The timetable to achieve the final target date of March 2013 is broken into 4 stages.

a) Stage one was to agree the design principles and this has already been achieved as outlined in section 5.

b) Stage two is taking place between January and April 2012 where all parties are due to agree on issues including, scheme contributions, accrual rate, revaluation rate, protections, employer cap and cost management mechanism.

c) Stage three will take place between April 2012 and September 2012. This will concentrate on setting up the system to manage costs, drafting the new regulations, redesigning systems and processes and joint communication to scheme members. Negotiations on items discussed in stage two may be revisited as the costing mechanism is agreed.

d) Stage four, consultation, will happen between September 2012 and March 2013. Introducing a new scheme will require a significant consultation period to give employers an opportunity to input on the impact of the proposals and to advise members of the detail of the proposed Scheme.

3.4. In conclusion the current situation is positive with Employer representatives and Unions working together to agree a new scheme. The design principles on which the scheme will be based have been agreed and although there is still significant work to be undertaken, it appears there is a common understanding of why the changes are being made. The Unions who are very keen that costs should not rise for members, particularly at this time of no pay increase, are willing to accept the move to a career average scheme as the best way to provide a pension for members. It is good news for councils as the introduction of a collar and cap mechanism should reduce the pressures on employer contribution rates in the long term.

BACKGROUND PAPERS

The background papers listed below are not for public inspection by virtue of Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains exempt information, namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

1. None

If you have any questions about this report, or wish to inspect one of the background papers, please contact Jonathan Hunt on 020 7641 1804 or jonathanhunt@westminster.gov.uk

Appendix 1 – Westminster response to DCLG Consultation

Appendix 2 – Heads of Agreement