

LOCAL GOVERNMENT PENSION SCHEME – RESPONSE TO STATUTORY CONSULTATION

PORTFOLIO RESPONSIBILITY: CORPORATE AND CUSTOMER SERVICES AND HUMAN RESOURCES

CABINET

22ND FEBRUARY, 2007

Wards Affected

None

Purpose

To endorse the proposed response to the statutory consultation being undertaken by the Department of Communities and Local Government (DCLG) in respect of the proposed changes to the Local Government Pension Scheme (LGPS).

Key Decision

This is not a Key Decision.

Recommendation

THAT the response to the statutory consultation be endorsed.

Reasons

To provide a prompt and comprehensive response to the statutory consultation exercise in order to influence the proposals and ensure that Herefordshire Council retains a LGPS that is affordable to Herefordshire, as well as remaining valued by current and prospective employees.

Considerations

1. Cabinet will be aware that the scheme is under review to ensure that it is viable and affordable.
2. The Council responded to consultation during June and September last year on four 'costed options'.
3. On 23rd November 2006 the Local Government Minister made a statement to Parliament announcing the new look LGPS which marked the start of the statutory consultation exercise that will continue until the end of February 2007. The new regulations are due to be in place for 1 April 2007 with the new-look Scheme programmed to be fully operational from 1 April 2008.
4. In December 2006 the draft regulations were published and the Government re-affirmed that the objectives for reform are

Further information on the subject of this report is available from
David Johnson Head of Human Resources on (01432) 383055

- that the scheme should be as flexible and accessible as possible, for both employees and employers so that it can provide a modern, equality proofed range of defined benefits, both now and in the future
 - to seek to maintain stability in the costs of the scheme, and to ensure an equitable benefit / cost balance between all stakeholders and to ensure that no additional costs are imposed on council tax payers.
5. The scope of the draft regulations is contained in Appendix 1.
 6. To assist in the on-going monitoring of the Scheme's regulatory and policy development, Ministers have agreed that a policy review group of key interested parties should be established to focus on strategic issues and establish common ground amongst stakeholders as a basis for co-operative decision making on Scheme developments and future changes, changes in scheme demographics and new cost-sharing arrangements to be in place for March 2009.

Local Consultation with Employees

7. A communication campaign to inform employees about the proposed changes and seek their feedback has been undertaken through *News and Views*, *First Press* highlights and online, a communication to all e-mail users, and on the home page of the intranet. Employees have been signposted to websites containing additional information, including a specific link to enable them to post comments direct with the DCLG. Worcestershire County Council, our local pension scheme administrator, has also posted a pensions newsletter about the proposals to scheme members.
8. Comments from employees during the consultation have been minimal but have included objection to elements of the proposed scheme. Feedback received from the *News and Views* process is in the main, seeking further information of the pension changes in a more understandable format.

The Union Position

9. Union feedback has been sought at the local level. Unison has informed us that they would be making comments via the local branch with reference to the Unison national position on this issue. No other local unions have responded.
10. Nationally, Unison and GMB publications indicate that they consider the draft regulations to contain some improvement on previous proposals. Talks have been taking place between the trade unions and employers to see if a joint agreement can be reached on the key issues for implementation by the government and reflected in the LGPS regulations. The two key issues being discussed so far have been the protection arrangements for existing scheme members as a result of the removal of the Rule of 85 and the proposed changes to the ill health retirement provisions. They have also stated that they do not accept the proposal giving the employer the discretion to reduce the pension for those people retiring early on redundancy or efficiency grounds.

Cost Implications

11. The consultation package has been reviewed in terms of existing members and new entrant members by the Government's Actuary's Department. The headline costings are set out below and provide an average existing member and new entrant employer benchmark cost of 13.2% (plus the cost of transitional protection post-2013). This compares favourably with the benchmark set at the 2004 valuations which were on average 14% - 15% in 2006-7 and 16% - 17% in 2007-8.

	<u>Existing Members</u>	<u>New Entrants</u>
Total cost:	20.5%	18.5%
Less Employee rate average	6.3%	6.3%
	<u>14.2%</u>	<u>12.2%</u>

12. The Council's contribution rate is currently 17.6%. We have sought information from the Actuary of our local pension fund about the impact of the proposed scheme changes. This has not yet been received. Indications are that the cost for employers will be reduced.
13. The transitional arrangements have now been costed at 0.2% of payroll, going forward from 1 April 2008. This amount is part of the savings achieved by the final removal of the rule of 85 from the LGPS.
14. To assist the Government with meeting its intention to ensure that no additional costs are imposed on council taxpayers it intends to establish a statutory based mechanism for sharing future cost pressures. This will be in place by March 2009 and will operationally influence and be influenced by the 2010 Scheme actuarial valuation exercise, and thus contribute to the eventual outcomes on new scheme contribution rates from April 2011.

Our Response to the Consultation

15. We consider that overall the proposals meet the objective of being attractive in comparison to other industries, yet financially viable. There are points of detail on which we intend to comment. Attached at appendix 2 is the text of our proposed response.

Risk Management

16. The topic of pensions is very much a 'live' issue for both Unison and GMB. Whilst acknowledging that the proposals are an improvement the issues highlighted above are likely to be points of disagreement about which they may ballot for industrial action. The proposals are being considered at the Unison Service Group Liaison's LGPS Strike Committee.
17. Herefordshire Council will review its contingency plan to deal with the consequences of any proposed industrial action ballot. Systems are already in place following the trade union industrial action over the abolition of the 85 year rule on 28 March 2006.
18. As the proposals also include tiered employee contribution rates the impact of the proposals for both employers and employees will also vary according to the makeup/career patterns of the workforce.
19. At present an employee is judged either to be permanently incapable of executing their actual or comparable job, and thus have service enhancement, or not. Under the new provisions there is a cost implication for those employees who are judged to be likely to have gainful employment before their normal retirement age.

20. We have been unable to verify the potential impact on our local pension scheme. The actuary will be including costs of the new scheme in its 3-year valuation, however this information will not be available until November 2007.

Alternative Options

An alternative option is not to respond. This is not a recommended action as it is important that the views of all employers are made known to the DCLG and inform the content of the new-look scheme.

Consultees

Pensions Administering Authority – Worcester

Trade Unions

Employees

Occupational Health Doctor

Appendices

Appendix 1 - Scope of the Draft Regulations for the New-Look LGPS Benefit Structure

Appendix 2 - Response to LGPS Statutory Consultation – Content

Background Papers

None identified