Report No.
RES11145

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**GENERAL PURPOSES AND LICENSING COMMITTEE**
Date:	**1st December 2011**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**LOCAL GOVERNMENT PENSIONS SCHEME - CONSULTATION ON DRAFT PROPOSALS**
Contact Officer:	Tracey Pearson, Chief Accountant Tel: 020 8313 4323 E-mail: tracey.pearson@bromley.gov.uk
Chief Officer:	Mark Bowen, Director of Resources
Ward:	Not applicable

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1. Reason for report

1.1 The Department for Communities and Local Government have issued a consultation document setting out the Government's draft proposals to achieve short-term savings of £900m within the Local Government Pension Scheme by 2014-15. This report seeks to inform Members of the detail of the consultation, invites Members views to inform Bromley's response and provides an update on HM Treasury's amended proposals for longer-term reform.

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2. RECOMMENDATION(S)

2.1 Members are requested to:

(a) note the content of the report;

(b) consider the draft proposals for short-term reform;

(c) consider whether there are any specific matters that should be reflected within Bromley's response to the consultation.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007 for the purpose of providing pension benefits for its employees.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: N/A.

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £31.6m expenditure (pensions, lump sums, etc.); £40.3m income (contributions, investment income, etc.); £460m total fund value at 7th November 2011.

5. Source of funding: Pension Fund

Staff

1. Number of staff (current and additional): 0.4FTE staff

2. If from existing staff resources, number of staff hours: c14 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,103 current employees, 4,578 pensioners, 4,028 deferred pensioners. These figures represent the whole fund, including LBB staff, scheduled and admitted bodies who are all affected by the proposals.

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.

2. Summary of Ward Councillors comments: Council wide

3. COMMENTARY

3.1 Former Work and Pensions Secretary, Lord Hutton, was appointed to chair an independent review into the long term future of public service pensions. A summary of the key changes arising from his proposals is shown below:

- The final salary scheme should be replaced by a career average scheme with protection for accrued pension rights;
- Normal pension age should be linked to state pension age and rise over time accordingly;
- A ceiling (to be determined) should be applied to employer contributions requiring a review of costs if the ceiling is exceeded;
- Changes will be introduced before the end of the current Parliament.

3.2 The Government accepted Lord Hutton's recommendations as a basis for consultation about the need for long term reform. The Government has indicated that it intends to introduce changes from 2015 and has confirmed that pension benefits accrued up to that point will be protected.

3.3 Before making recommendations for wider reform, Lord Hutton published an interim report in October 2010. The Commission acknowledged the need to consider long-term structural reform of public service pensions and that this would take time. The interim report suggested the need to make short-term changes pending long-term reform. The Commission considered a range of options that may provide short-term savings, specifically changes to the benefit structure, contracting public service pension schemes into the state second pension and increasing contribution rates.

3.4 The report concluded that the most effective way to make short-term savings was to increase member contributions and that it was for the Government to determine the manner and level of such increases. The Commission recommended that increases in contributions should be staged with a view to avoiding an increase in opt out rates and that low earners should be protected.

3.5 HM Treasury confirmed that consultation would begin on proposed increases in contributions for the unfunded public service pension schemes. The Government recognised that the funded nature of the LGPS required separate discussions to seek alternative ways to deliver some or all of the savings.

3.6 On 7th October 2011, the Department for Communities and Local Government (CLG) issued a consultation document with proposals on short-term reforms required to secure £900m savings in the LGPS by 2014/15. The consultation document is attached at appendix 1.

3.7 The consultation sets out two options:

(a) an increase in employees' contributions from April 2012 to raise an additional £450m (1.5% of pensionable paybill) and

a change in accrual rate from April 2013 to raise an additional £450m (1.5% of pensionable paybill)

(b) an increase in employees' contribution rate from April 2012 to raise an additional £300m (1% of pensionable paybill) and

a change in accrual rate from April 2014 to raise an additional £600m (2% of pensionable paybill)

3.8 The key objectives are to protect low earners, ensure increases in contribution rates are progressive and minimise the risk of high opt out rates associated with trying to achieve the full savings through an increase in contributions only. The CLG proposal is to increase employee contribution rates by an average of either 1.0% or 1.5% over three years. The level of increase varies according to salary bandings with no increase for employees earning under £15,100. The maximum increase of 5% applies to those earning over £150,000. Additionally, the accrual rate will be reduced from the current 1/60th to either 1/65th or 1/67th providing further savings.

3.9 The 2 options are summarised in the table below:

Local Government Pension Scheme	Option 1	Option 2
Average increase in employee contributions	1.5%	1.0%
Maximum increase in employee contributions	5%	5%
Accrual rate (current)	1/60th	1/60th
Accrual rate 2012/13	1/60th	1/60th
Accrual rate 2013/14	1/64th	1/60th
Accrual rate 2014/15	1/65th	1/67th
Overall savings in pensionable paybill	3.0%	3.0%

A more detailed analysis is included at annex A of the consultation document.

3.10 The Local Government Group has submitted alternative proposals to achieve the short-term savings comprising an increase in the normal retirement age from 65 years to 66 years and a member choice of an increase in contributions or a change in accrual rate. Negotiations between the Local Government Group and Trade Unions have not so far managed to reach agreement on a joint proposal although there is an intention to continue discussions. Should any further proposals come forward, either separately or jointly, these can feed into the consultation process. The Local Government Group's proposals are included at Annex B of the CLG consultation document.

3.11 In his final report, Lord Hutton recommended that the normal pension age in public sector pension schemes be linked to the state pension age. The CLG consultation on short-term reform seeks views on this option. The Government Actuary's Department advises that this would deliver annual savings in the region of £330m if implemented for future service accruals with the remaining savings measures including a combination of changes to employee contributions and accrual rates.

3.12 The short-term proposals are designed to deliver savings by re-balancing the cost of pension provision between employees and employers and taxpayers. This would be achieved by a reduction in employers' contributions as part of the statutory triennial actuarial valuation. However, current regulations prevent any downward revision to employer contribution rates between the triennial valuations. CLG have therefore suggested a 'technical amendment' enabling scheme appointed actuaries to vary rates between valuation exercises and provide that the accrual rate changes are reflected in the 2013 valuation.

3.13 Views are invited on the proposals contained within the consultation document by 6th January 2012. In particular, responses are requested to five specific questions as detailed in para 7.1 of the consultation document. Officers are currently working on a response on behalf of Bromley and Members views are sought to help inform this response.

3.14 The consultation document has been e-mailed to all staff, together with a summary leaflet outlining the proposals and a more detailed leaflet providing additional information. These leaflets are attached at appendix 2 for information. This information has also been e-mailed to head teachers requesting that they circulate to schools staff who do not have access to our e-mail system. Should staff wish to respond to the consultation, they can do so directly to the CLG but have been requested to provide a copy of any response to the pensions monitoring officer to help inform Bromley's response.

Government's Revised Offer on Longer Term Public Sector Pensions

3.15 On 2nd November 2011, HM Treasury issued an improved offer for longer-term public service pension reform. The Government expects scheme specific discussions to go forward based on this offer. The full document is available on the HM Treasury website at http://hm-treasury.gov.uk/tax_pensions_index.htm. Key elements include:

- benefits already earned are protected;
- anyone who has 10 years (or less) until pension age on 1st April 2012 will not be affected by the proposed changes to the pension scheme but will still have to make additional employee contributions;
- an accrual rate of 1/60th rather than the expected 1/65th;
- pension will move to a career average scheme rather than final salary;
- employee contributions will still increase by an average of 3.2%;
- normal retirement age will increase in line with the state pension age (66 years by 2020 and 67 years by 2027)
- pension will continue to increase by CPI rather than RPI (there is currently a legal challenge by the trade unions to this change);

3.16 To pay for this improved offer, the Government has stated that it will allow the overall costs of schemes to rise from between 17.3% - 20.8% of the overall paybill to between 20.4% and 22.5%. Most of the increased costs of the revised offer will be met by employers except in the LGPS where it is expected to be met by employees. Details of the latest cost ceilings are shown in the table below:

Scheme	Total Cost	Employer	Average Employee Contributions
NHS	21.9%	12.1%	9.8%
Civil Service	22.5%	16.9%	5.6%
Teachers	21.7%	12.1%	9.6%
LGPS	20.4%	10.9%	9.5%

3.17 The timetable for the Hutton Reform includes scheme specific discussion to continue until the end of 2011 to inform detailed proposals for the drafting of legislation. The new scheme is intended to be implemented from April 2015.

3.18 There have been concerns expressed that changes to the LGPS could result in higher opt out rates which would impact on any savings that are initially achieved. Pension funds could face increasing deficits and this would result in additional costs for employers through the need to increase contributions. There is a real risk that the combination of redundancies, early retirements and outsourcing will reduce the number of active members nationally.

3.19 The changes will also result in additional administration and some members will have four sets of benefits detailed on their annual statements:

- those calculated prior to the 2008 reforms
- those based on the accrual rate implemented under the 2008 reforms
- those based on current proposals
- further changes from 2015

3.20 In the Chancellor's 2011 Budget, the Government announced it's intention to look at ways to integrate the operation of income tax and national insurance contributions. There are also plans to change the state pension scheme and this could result in the end of the contracted-out national insurance rate for defined benefit pension schemes. There are already plans to end contracting out from 6th April 2012 for personal pensions, stakeholder pensions and company pensions contracted out on a defined contribution basis. Company schemes which contract out on a salary-related basis, such as the LGPS, can continue to do so at present. Currently, employees receive a 1.6% rebate and employers a 3.7% rebate on a proportion of their national insurance contributions. From April 2012 this has been reduced to 1.4% for employees and 3.4% for employers. Should the contracted-out rebate be abolished, additional costs to the Council of £1.4m per annum would be incurred as well as a reduction in net pay for employees.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007 for the purpose of providing pension benefits for its employees.

5. FINANCIAL IMPLICATIONS

5.1 It is expected that each of the options will deliver the same level of savings overall through a mix of increasing employee contributions and changes in accrual rates. Option 1 provides for a 50/50 split with option 2 expected to achieve 1/3rd from employee contributions and 2/3rds from a higher reduction in accrual rates from 2014/15.

5.2 Based on active members, as reflected in the 2011/12 budget, the impact of option 1 (average 1.5% increase) would be an increase in employee contributions of approximately £900k by 2014/15. Option 2 (average increase of 1%) would be approximately £600k. This reflects the increase in employee contributions only with the balance being met by changes in accrual rates.

5.3 This would result in an equivalent reduction in employer contributions. However, as detailed in para 3.12, current regulations prevent any downward revision to employer contribution rates between triennial valuations and amended legislation is awaited.

5.4 These figures provide an indication of the financial impact from each of the 2 options but need to be treated with caution as the profile of the workforce is changing. As detailed in para. 3.18, the combination of potential redundancies, early retirements and outsourcing is likely to reduce the number of active members and this, in turn, will affect the projections.

5.5 The estimated impact of the ending of the contracted-out rate of national insurance is a cost to the Council of £1.4m per annum. Again this is based on the staffing establishment as reflected in the 2011/12 budget.

5.6 It is not possible to estimate with any degree of accuracy the impact on the pension fund of the many variables, including proposed changes to accrual rates. This will be subject to actuarial valuation and any final costs and savings will depend on the detailed final proposals.

5.7 The utilisation of any savings will be considered as part of the 2012/13 budget process.

6. LEGAL IMPLICATIONS

6.1 This consultation exercise marks the start of the formal statutory consultation process for proposed amendments to the LGPS Regulations, as required by section 7(5) of the Superannuation Act 1972.

7. PERSONNEL IMPLICATIONS

7.1 Against the background of pay freezes since 2010/11 and the unprecedented cost cutting measures and the associated organisational changes, the proposed changes to employee pension contributions and benefits are very unpopular with staff, and will undermine the ‘psychological contract’ and the wider relationship between local government staff and their employers.

7.2 The mix of pay freeze, redundancies and increased employee pension contributions are also likely to impact on staff morale and could affect the Council’s ability to recruit and retain staff especially in shortage areas.

7.3 There is an increasing possibility of challenging industrial relations at national and local levels over these proposed changes. There was some limited strike action by some unions earlier in June this year and the results of recent ballots by all the main trade unions concerned have resulted in a majority of those voting in support of strike action. Although the Council has yet to receive official confirmation from all unions, at the time of writing it is known that widespread strike action is planned for 30th November 2011.

7.4 Whilst it is not possible to say in advance how many employees will take strike action, an estimated 2,130 Council employees are trade union members. This figure includes 31% of the central staff/non teaching workforce and nearly all directly employed teachers (this figure includes Community and Voluntary controlled schools but not Foundation, Voluntary Aided or Academy staff where the Governing Body is the employer). The action therefore has the potential to impact on all directly delivered Council services.

7.5 Managers have been asked to assess the impact of industrial action on their service and plan accordingly with advice and guidance from HR to help them manage and minimise the impact of the strike action. Although the Council does not have the final say over pension changes, we will seek to influence and manage the local industrial relations climate with a view to minimising the impact on frontline services.

Non-Applicable Sections:	None
Background Documents: (Access via Contact Officer)	Department for Communities and Local Government: Consultation Document (appendix 1) – www.communities.gov.uk/documents/localgovernment/pdf/2004147.pdf HM Treasury “Public Service Pensions: Good Pensions that Last “ - http://hm-treasury.gov.uk/tax_pensions_index.htm Independent Public Service Pensions Commission: Interim and Final Reports - http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm General Update – Pensions Investment Sub-Committee 9th November 2011