Report No. RES11009	**London Borough of Bromley**	**Agenda Item No.**

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**		
Date:	**10th May 2011**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**GENERAL UPDATE**		
Contact Officer:	Peter Turner, Finance Director, Tel: 020 8313 4668 E-mail: peter.turner@bromley.gov.uk		
Chief Officer:	Director of Resources		
Ward:	All		

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1. Reason for report

This report provides a general update to Members on changes that will impact on the Pension Fund.

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2. RECOMMENDATION

2.1 The Sub-Committee is asked to note the report.

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. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £2.5m (includes fund manager/actuary fees, Liberata charge and officer time)

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); £489.7m total fund value at 31st March 2011)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.6 FTE

2. If from existing staff resources, number of staff hours: c 21 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): 5,246 current employees; 4,522 pensioners; 3,859 deferred pensioners

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Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Independent Public Services Pension Commission

3.1.1 Ex-Labour Cabinet minister John Hutton was appointed by the coalition Government to head a commission into public sector pensions with the aim of providing full proposals in time for the 2011 Budget.

3.1.2 A summary of the key changes arising from his proposals is shown below:

(a) Final salary pension scheme to be replaced by career average scheme but existing accrued pension rights to date to be honoured (thereafter move to average salary for the remaining years only in new scheme);
(b) Normal pension age to be linked to state pension age (state pension age is set to rise to 66 by 2020);
(c) If the employer contribution exceeds a set ceiling (to be determined), then there should be a review of costs, which could include the option to increase employee contributions or alternatively a review of the whole scheme;
(d) New changes will be introduced before the end of the current Parliament.

Further details are available in the Barnett-Waddingham link below:

http://www.barnett-waddingham.co.uk/public-sector-pensions/publications/

3.1.3 Initial suggestions from the Department for Communities and Local Government (DCLG) of possible options for increases in the employee contributions to the scheme include:

Band	Salary	Current rate	2012/13	2013/14	2014/15
1 to 4	Up to £24,000	5.5% to 6.5%	5.5% to 6.5%	5.5% to 6.5%	5.5% to 6.5%
5	£24,001 to £31,500	6.5%	7.8%	9.1%	9.7%
6	£31,501 to £42,000	6.8%	8.5%	10.2%	11.0%
7	£42,001 to £75,000	7.2%	9.5%	11.8%	13.0%
8	£75,001 to £100,000	7.5%	10.1%	12.7%	14.0%
9	£100,001 to 150,000	7.5%	10.3%	13.1%	14.5%
10	£150,000 +	7.5%	10.5%	13.5%	15.0%

Further details are available in the website link below:

http://www.lge.gov.uk/lge/aio/10150853

3.1.4 The indicative changes from DCLG would increase employee contributions for staff earning more than £24k per annum. If, as suggested, the changes are phased over 3 years from 2012/13 to 2014/15, potential full year savings to the Council of £1.8m would be achieved by 2014/15. However, it is not clear whether the Government would expect the savings to be reinvested into reducing pension fund deficits.

3.1.5 It is important to note that these changes could lead to reductions in the membership of the public sector pension scheme which could have adverse longer-term consequences on the viability of the pension scheme.

3.1.6 The Chancellor, as part of the March Budget, has confirmed that the Government "accepts Hutton's recommendations as a basis for consultation with public sector workers, unions and others" and agreed that there should be "no cherry-picking on either side". There is likely to be some delay in the implementation of the changes to allow for consultation and the changes will certainly be implemented before the end of the parliamentary term.

3.1.7 The Chancellor's Budget also refers to merging the operation of National Insurance and Income Tax. In addition there are plans to change the state pension scheme which could be the "beginning of the end" of the contracted-out national insurance rate for defined benefit pension schemes. Under current arrangements, employees pay 1.6% less and employers 3.7% less than the standard rates. From April 2012, these discounts will be cut back. In the longer term, the elimination of the contracted-out rate would result in additional costs of £1.4m per annum for the Council as well as a reduction in take home pay for employees.

3.2 Restricting Pensions Tax Relief

3.2.1 Legislation will be introduced through the Finance Bill 2011 to restrict pension tax relief for individuals by reducing the annual allowance from £255,000 to £50,000 (wef April 2011) and the lifetime allowance from £1.8 million to £1.5 million (wef April 2012).

3.2.2 The changes are expected to raise £4 billion per annum nationally and affect 100,000 pension savers, 80% of whom have incomes over £100,000.

3.2.3 These changes were announced by the current coalition Government in the June 2010 Budget and the revised arrangements supersede the proposals by the previous Labour Government.

3.2.4 The annual allowance from 2011/12 will be reduced to £50,000. The key changes include, for example:

(a) the annual allowance will be linked to the individual's marginal tax rate (highest rate of tax);
(b) any unused allowances can be carried forward for three years;
(c) the valuation factor to calculate the value of the defined benefit pension savings will increase from a factor of 10 to 16;
(d) inflation-linked increases in expected pensions of deferred members of schemes will not count towards the annual allowance charge.

Further details are available on the HMRC website.

3.2.5 The scheme will remain complex with two new options being identified, where a significant tax liability arises for an individual as follows:

(a) reducing pension benefits entitlement due to the scheme paying the tax charge at the time;
(b) rolling up the tax charge liability (including addition of tax interest rate) and deferring payment till benefits are realised – this will effectively reduce the final pension benefits.

A working model of how it would impact on individuals is available on the Barnett Waddingham website:

http://www.barnett-waddingham.co.uk/public-sector-pensions/restricting-pensions-tax-relief/

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. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 Details are provided in the main body of the report.

Legal and Personnel Implications	None directly arising from this report
Background Documents: (Access via Contact Officer)	References to websites that give background information are provided in the report.