Havering
LONDON BOROUGH

PENSIONS COMMITTEE 9 November 2011	REPORT

Subject Heading:	**Consultation on the Review of the Local Government Pension Scheme**
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Policy context:	To consider the Governments proposal's to deliver short term savings in the LGPS
Financial summary:	The LGPS is a funded scheme and as such it will be necessary to reduce the level of employer contributions so that savings are transferred to the Council. However, it is expected that these savings will be accounted for in the Local Government Financial Settlement in order for the Treasury to achieve its national savings targets.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[x]
High customer satisfaction and a stable council tax	[x]

SUMMARY

This report sets out the Governments proposals to achieve savings in the Local Government Pension Scheme and seeks the Committee's views in response to the consultation. The consultation period ends on 6th January 2012.

RECOMMENDATIONS

The committee is asked to consider and comment on the Governments proposals to achieve savings in the Local Government Pension Scheme before the report is referred to Cabinet prior to responding to the consultation document.

REPORT DETAIL

1. Backround

1.1 On 7 October 2011 the Department of Communities and Local Government published a consultation paper with proposals to deliver short term savings in the Local Government Pension Scheme of £900m per annum nationally by 2014-15 equivalents to a 3.2% increase in employee contributions.

1.2 Further proposals are expected to follow on the longer term changes proposed by Lord Hutton as part of his review into public service pension schemes.

2. DCLG Proposals

2.1 Rather than make all the target level of savings from increased contributions the DCLG have proposed smaller increases in employee contributions combined with reductions in benefits.

Option 1
A phased increase in employee contributions from April 2012 rising to 1.5% of pensionable pay by 2014 -15.

The remainder of the saving to be achieved by reducing scheme benefits. This will be achieved by a reduction in the schemes accrual rate from the current 1/60th to 1/64th for 2013/14 and 1/65th from April 2014.

Option 2
A lower phased increase in employee contributions from April 2012 rising to 1% of pensionable pay by 2014 -15.

The remainder of the saving to be achieved by a larger reduction in the schemes accrual rate from the current 1/60th to 1/67th from April 2014

2.2 The Government have indicated that a technical amendment to the regulations is required to allow a downward revision to employer contribution rates between triennial valuations. This is intended to allow employers to reduce contributions by a sum equivalent to the increase in employee contributions (and reduced benefits); with the intended net impact on the Pension Fund being neutral.

2.3 It is proposed that there should be no increase in contributions rates for employees earning less than £15,000. Contribution rates for employees earning more than £15,000 would increase progressively across a range of specified tariff bandings (salary levels) as set out in more detail at appendix A. For the highest paid, contributions would rise from the current rate of 7.5% to 12.5%. by 2014/15.

3. Other Options

3.1 The Government have indicated that it would consider other options which deliver the same level of savings. Costed proposals would need to be submitted to the DCLG by the 6 January 2012 as part of the consultation exercise.

3.2 The Local Government Group (which represents employers) has submitted alternative proposals which include an increase in the retirement age to 66 which would deliver £330m of the £900m required nationally. As a consequence, it would not be necessary to increase employee contributions and accrual rates at the same rate as under the DCLG options.

3.3 The Government has indicated that it will consider any options delivered by the LGG, Trades Unions or other interested parties as part of the consultation exercise (so long as an equivalent level of savings can be achieved)

4. Initial Feedback

4.1 The DCLG's proposal has been based upon there being a limited number of employee opt-outs from the scheme in response to changes in contribution rates. If the level of opt outs proves to be significant there is a risk that the proposals would not deliver the required level of savings (see also the comments under financial implications and risks). Increased contribution rates may in themselves encourage opt outs. However, there are a number of issues which arise from the proposals which may have a detrimental impact on the fund.

4.2 Under the proposed arrangements, pension costs, deferred pensions and salary bandings are linked to inflation (Consumer Price Index). During a time of pay restraint this creates a number of issues for the fund (and employees)

4.2.1 Employees nearing retirement may be better off opting out of the scheme as their accrued pension rights continue to increase at the CPI rate. The pension fund would not receive employee contributions in those final years.

4.2.2 The pension bandings may move at a faster rate than pay levels resulting in a reduction in employee contributions over time.

4.3 The percentage rate of employee contribution will continue to rise at each salary banding. Contributions become payable at the higher rate on the whole salary once the pay level reaches the threshold. This may have a detrimental impact upon recruitment and career planning where the increased contribution outweighs a pay increase (a problem which may be exacerbated for the employee when income tax changes are taken into account).

4.4 Contribution rates for part time members are based upon full time equivalent salaries. Under the proposals this could result in a significant increase for this group of employees.

4.5 Officers are meeting with the Fund's actuary on 31st October to consider the potential impact of opt outs and other related actuarial matters. A verbal update will be given at the meeting.

5. Responses to the consultation

5.1 The Committee is invited to make any comments in respect of the Government's proposals. These comments will be included in a report to Cabinet where it is intended that they review and approve the final response to the consultation (which closes on 6th January 2012). The specific questions raised in the consultation document are included at appendix B. The final response will be reported back to this Committee for noting.

5.2 The Government intends to consider responses to the statutory consultation and put the chosen option into place from April 2012. A further report will be made to the Committee when the outcome of the consultation is known.

5.3 It is expected that the Government will introduce further reforms in the LGPS in response to Lord Hutton's review of public sector pensions. These changes are not expected to take place until 2016

IMPLICATIONS AND RISKS

Financial Implications and risks:

The intention of these proposals is to deliver savings in the Local Government Pension Scheme. As the LGPS is a funded scheme it will be necessary to reduce the level of employer contributions to the fund so that savings are transferred to the Council (and other employers). However, it is also expected that these savings will be accounted for in the Local Government Financial Settlement in order that the Treasury is able to achieve its national savings targets.

A 3.2% change in contributions equates to approximately £3.4 million for the Council. In the event of large numbers of opt outs in membership there is a risk of a detrimental impact upon Pension Fund cashflow. The Council will also need to account for the increase in Employers National Insurance payments which will become payable for most employees opting out of the LGPS. However, the complexity of the proposals and the uncertainties around fall out rates make it difficult to predict the actual level of savings that would be generated.

At the moment it is also unclear as to the way in which the Treasury will seek to benefit from these savings through the Local Government Financial Settlement. If reductions in Revenue Support Grant exceed the actual savings in employee contributions the Council could be disadvantaged.

Legal Implications and risks:

The consultation exercise represents 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.

The DCLG have indicated that a technical amendment to the regulations is required to allow a downward revision in employer contribution rates between triennial valuations.

There are no apparent legal implications in considering and recommending any proposed responses to the consultation

Human Resources Implications and risks:

The LGPS will continue to represent a valuable benefit for Local Authority employees despite increases in contribution rates and reductions in benefits. However, in the current economic climate there is a risk of employee opt outs and reduced take up. The proposed changes are also highly complex and will prove difficult to understand by employees and administer by the Council.

The Committee should also be mindful of the potential for industrial action in response to the Government's proposals. Public Sector unions are currently balloting members; the outcome of which is awaited.

Equalities implications and risks:

Under the DCLG scheme it is proposed that there should be no increase in contributions rates for employees earning less than £15,000 thereby minimising the impact on the lowest paid. Contribution rates for employees earning more than £15,000 would increase progressively across a range of specified tariff bandings (salary levels). However, this creates a number of "cliff edges" where employees could potentially find that increases in pay are outweighed by an increase in contribution rates.

Part time workers may also be disproportionately affected if contribution levels are based on full time equivalent salary rather than actual pay.

BACKGROUND PAPERS

Local Government Pension Scheme: Consultation on proposed increases to employee contribution rates and changes to scheme accrual rates (Published by DCLG)