

Dear Colleague

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LOCAL GOVERNMENT PENSION SCHEME

1. With the agreement of Ministers, this letter sets out the initial and medium term context for the Local Government Pension Scheme in England and Wales, following the Ministerial Written Statement by the Chief Secretary to the Treasury on 19 July 2011 to the House of Commons, and indicates anticipated next steps.

Ministerial Written Statement on Public Service Pension Schemes

2. The Chief Secretary's Statement to Parliament sets out the basis upon which the Government now intends to proceed to implement policies first announced in the Autumn Spending Review on employee contributions, and on taking forward initial scheme specific discussions for long term pension reform announced in Budget 2010.
3. The Government has accepted the broad principles set out in Lord Hutton's final report as a basis for consultation. Against the high level discussions held with the TUC, scheme specific discussions are now to take place on taking the principles forward. Long term reforms are unlikely to come into force before 2015.
4. The Government's position is that public service pensions will remain among the very best available, providing a guaranteed pension level for all employees. However, given that people are living much longer and so pensions become more expensive, people need to work for longer before drawing their pension. Employees are, therefore, being asked to ensure a fairer balance between what employees pay and what other taxpayers have to pay. The processes for taking this forward are described in more detail below in paragraphs 6- 9. For the longer term reform timetable, paragraphs 10-12 summarise the anticipated next steps.

5. The principle elements for public service pension scheme reforms, as set out in the Statement (which can be accessed at http://www.hm-treasury.gov.uk/press_83_11.htm; a copy is attached for ease of reference), are as follows:-
- central talks between Ministers and the trade unions will continue alongside scheme-specific discussions;
 - scheme-specific discussions are now to begin on wider reform arising from Lord Hutton's report;
 - cost ceilings will be set by 1 October by Treasury, based on Government Actuary's Department advice;
 - schemes will have the freedom to design the future shape of reforms within the cost ceiling and are subject to Treasury's approval of each scheme's longevity risk management arrangements;
 - using the LGPS' agreed cost ceiling, initial scheme specific proposals for reform in headline terms are required to be established by the end of October;
 - detailed scheme designs discussions will then continue to allow the relevant legislation being introduced in the Parliamentary session 2012/13 to allow for a 2015 implementation date.

Employee Contributions

6. The position of the Local Government Pension Scheme in England and Wales, in relation to employee contribution rate tariff reform, is specifically clarified in the Written Statement, as follows:-

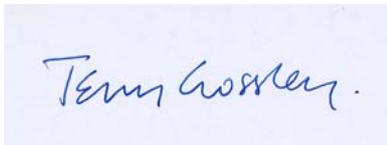
"...the Government recognises that the funded nature of the scheme puts it in a different position and will discuss whether there are alternative ways to deliver some or all of the savings."

7. Following that clarification, the Local Government Group has now been invited by the Secretary of State to conduct discussions with the local government trade unions to establish a package of measures to secure the necessary short term savings in the LGPS equivalent to the 3.2% percentage point increase in other schemes. The package will include protections from contribution increases for the lowest paid. Other issues important to the long term sustainability of the LGPS may also be discussed.
8. The Secretary of State has requested the outcome of the discussions to be reported to him by 9 September in time to allow the formal, statutory consultation exercise to begin by the end of September.
9. The onward timetable from that point, as required by section 7 of the Superannuation Act 1972, is as follows:-
- a. a 12 week statutory consultation exercise in October, November and December 2011 on amending regulations;
 - b. consideration of responses and decisions by Ministers in early 2012;
 - c. making and laying of the amending regulations as soon as possible thereafter; and
 - d. scheme changes coming into force on 1 April 2012.
10. In parallel, the Scheme's Policy Review Group has initially discussed the context for these discussions, as indeed has the Local Government Pensions Committee's Officer Advisory Group. A pre-arranged meeting of the Local Government Group and the local government trade unions took place on 27

July. A meeting of the Policy Review Group is now scheduled for 15 August. The extended consultation period will allow a continuing series of discussions across all Scheme interests as part of the process to ensure the most effective outcome for the Scheme as a whole, including additional meetings of the Policy Review Group.

Post-Hutton Reforms

11. The Chief Secretary's Written Statement sets out an indicative timetable for the anticipated scheme-specific discussions now to take place. The Government intends to set individual scheme cost-ceilings to ensure on-going affordability and sustainability. These will replace the previously envisaged 'cap and share' mechanism for the LGPS. The data stream aspects and adjustment to contribution provisions will remain in place or be modified as necessary.
12. The cost ceilings will be based on Lord Hutton's proposals, but will go further and ensure that the pension individuals receive at normal pension age will be broadly as generous for low and middle earners as it is now. The ceilings will ensure that public service pension schemes remain affordable and sustainable, by setting a limit on the contribution made by employers and ultimately, the taxpayer. Further details on how the cost ceilings are to be set will follow.
13. From that position, Schemes are being invited to provide initial reform proposals in headline terms by the end of October. The programme envisaged then is to finalise detailed Scheme design elements so that the relevant legislation can be introduced in the 2012-13 Parliamentary session. This will allow full implementation for April 2015.
14. This clearly requires a tight focus on the LGPS Policy Review Group and the supportive bodies around it who contribute and who have commented so much expertise to the present structure and Hutton process.
15. If, in the meantime, Scheme interested parties would like discuss any aspect of this work in relation to the LGPS, please contact Bob Holloway at Robert.holloway@communities.gsi.gov.uk to arrange a discussion.

A handwritten signature in blue ink that reads "TBJ Crossley". The signature is written in a cursive style and is contained within a light blue rectangular box.

TBJ CROSSLEY

List of Addressees

The Chief Executive of:

County Councils (England)
District Councils (England)
Metropolitan Borough Councils (England)
Unitary Councils (England)
County and County Borough Councils in Wales
London Borough Councils
South Yorkshire Pension Authority
Tameside Metropolitan Borough Council
Wirral Metropolitan Borough Council
Bradford Metropolitan City Council
South Tyneside Metropolitan Borough Council
Wolverhampton Metropolitan Borough Council
London Pension Fund Authority
Environment Agency

Town Clerk, City of London Corporation
Clerk, South Yorkshire PTA
Clerk, West Midlands PTA

Policy Review Group members
Fire and Rescue Authorities in England and Wales
Police Authorities in England and Wales
Audit Commission
National Probation Service for England and Wales

Local Government Group
LGPC
Association of Colleges

ALACE
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Association of Consulting Actuaries
Association of District Treasurers
Society of County Treasurers
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