Rt Hon Eric Pickles, MP
Secretary of State for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU

20 May 2011

Dear Minister,

**Independent Public Service Pensions Commission: Final Report**

I am writing to you to set out the Local Government Group's views on the recommendations made in the final report of the Independent Public Service Pensions Commission in as far as those recommendations relate to the Local Government Pension Scheme (LGPS).

We hope that the views set out in this letter will be of assistance to the Government in meeting its stated intention, as outlined by the Chancellor in his Budget Statement, to come forward by the autumn with proposals for a new, affordable, sustainable and fair scheme.

| Recommendation in report | Comment |
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| 1. The Government should make clear its assessment of **the role of public service pension schemes**. Based on its framework of principles, the Commission believes that the primary purpose is to ensure adequate levels of retirement income for public service pensioners. | We agree with this recommendation. |

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| 2. Pensions will continue to be an important element of **remuneration**. The Commission recommends that public service employers take greater account of public service pensions when constructing remuneration packages and designing workforce strategies. The Government should make clear in its remits for pay review bodies that they should consider how public service pensions affect total reward when making pay recommendations. | We agree with this recommendation. |
| 3. The Government should ensure that public service schemes, along with a full state pension, deliver at least **adequate levels of income** (as defined by the Turner Commission benchmark replacement rates) for scheme members who work full careers in public service. Employers should seek to **maximise participation** in the schemes where this is appropriate. Adequate incomes and good participation rates are particularly important below median income levels. | We agree with this recommendation. |
| 4. The Government must **honour in full the pension promises** that have been accrued by scheme members: their **accrued rights**. In doing so, the Commission recommends **maintaining the final salary link for past service** for current members. | We are concerned by the recommendation that benefits accrued up to the date the new scheme is introduced should continue to be based on final pay when the person leaves / retires; that the final pay link is retained on career breaks of up to 5 years; and that the final pay link carries over if a person has a Club transfer from one public sector scheme to another. This potentially has significant cost implications for employers participating in the LGPS and, by extension, for council tax payers and retains a final salary link for perhaps another 50 or so years for a 16 year old joining the scheme |

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| | today and retiring from the scheme in his / her late 60's. There would also be intergenerational inequity to the extent that the cost is reflected in the design of the new scheme, as future scheme members would be subsidising the cost of protecting the final salary link for current active members moving to the new scheme. Our view is that accrued rights should instead be linked to final pay at the point the current scheme is closed i.e. the person would be awarded a deferred benefit in the current scheme which would increase in line with an appropriate index. The huge administrative burdens for employers and pension scheme administrators that would result from an exercise to award deferred benefits to such large numbers of scheme members would need to be allowed for. |
| 5. As soon as practical, **members of the current defined benefit public service pension schemes should be moved to the new schemes for future service**, but the Government should continue to provide a form of **defined benefit pension** as the core design. | We agree that members of the current LGPS should be moved to a new defined benefit scheme for future service as soon as is practicable. The continuation of a form of defined benefits pension scheme is important as we recognise the value of the pension scheme as part of the overall pay and rewards package and its importance in our ability to recruit and retain an effective and motivated workforce. Retention of a form of defined benefit scheme also helps to reduce the number of those who might otherwise have become reliant on means tested benefits in old age. |
| 6. All public service pension schemes should **regularly publish data which, as far as possible, is produced to common standards and methodologies and is then collated centrally**. This information | As mentioned in our response to recommendation 19 below, each Fund already publishes significant amounts of information. It is difficult to see what, other than of academic interest, a national comparison of |

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| should be of a quality that **allows simple comparisons to be made** across Government, between schemes and between individual Local Government Pension Scheme (LGPS) Funds. | investment performance over time across Funds would achieve, given that each of the 89 LGPS Funds in England and Wales are uniquely different and democratically accountable at local level. Similarly, we know that administration costs can vary depending on the level of service a Fund provides and the charges costed to 'administration'. The true usefulness of a centrally collated data is, therefore, questionable given that like for like are not necessarily being compared. |
| 7. A new **career average revalued earnings (CARE) scheme** should be adopted for general use in the public service schemes. | We agree that the new scheme for the LGPS should be a CARE scheme. The balance between contribution rates, accrual rates and revaluation rates within an overall cost-envelope for the LGPS should be a matter for discussion between LGPS stakeholders with a view to balancing the aims of delivering an adequate retirement income, good participation rates and scheme sustainability. |
| 8. **Pension benefits should be uprated in line with average earnings during the accrual phase for active scheme members**. Post-retirement, pensions in payment should be indexed in line with prices to maintain their purchasing power and adequacy during retirement. | It will be necessary to specify which average earnings index is to be used for active scheme members. Linking the revaluation rate to an average earnings index will impact on the level of the accrual rate and the required contribution rates within the overall cost-envelope.<br><br>We agree that, post retirement, benefits should be increased in line with prices (i.e. currently in line with CPI). |
| 9. A single benefit design should apply across the whole income range. The differing characteristics of higher and lower earners should be addressed | We agree that a single benefit design should apply across the whole income range. With regard to tiered contribution rates there are |

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| through **tiered contribution rates**. The Government should consider the trade off between affordability and the impact of opt outs on adequacy when setting member contribution levels. | arguments for and against. For example, although there are arguments that high earners should pay a higher contribution (as there is evidence that they have a higher life expectancy and so may receive a pension for a longer time than those with low earnings – see paragraph 3.84 of the Commission's report) there are equally counter arguments against higher contribution rates given that pensions are to be seen as part of the overall remuneration package (see recommendation 2) and higher earners earn less than their counterparts in the private sector (see paragraph 1.44 of the report). A decision on tiered contribution rates would need to be taken after giving appropriate weighting to each argument. |
| 10. Members should have **greater choice** over when to start drawing their pension benefits, so they can choose to retire earlier or later than their Normal Pension Age and their pension would be adjusted accordingly on an actuarially fair basis. **Flexible retirement** should be encouraged and abatement of pensions in its current form for those who return to work after drawing their pensions should be eliminated. In addition, caps on pension accrual should be removed or significantly lifted. | We agree with this recommendation (given that the LGPS already includes flexible retirement provisions, does not have a cap on pension accrual, permits members to draw benefits without employer consent up to 5 years earlier than the normal retirement age of 65, and abatement is currently at the discretion of each Pension Fund administering authority). |
| 11. The Government should **increase the member's Normal Pension Age in the new schemes so that it is in line with their State Pension Age.** The link between the State Pension Age and Normal Pension Age should be regularly reviewed, to make sure it is still appropriate, with a preference | We agree with this recommendation. |

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| for keeping the two pension ages linked. | |
| 12. The Government, on behalf of the taxpayer, should set out a **fixed cost ceiling**: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an **automatic default** change if agreement cannot be reached. | We agree that the Government should set a cost envelope within which the new LGPS should be designed. The cost envelope would have to be based on average, national LGPS costs, given that there are 89 separate pension Funds in England and Wales.<br><br>We also agree that where costs exceed the cost ceiling there should be a consultation process between interested parties to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached. It will, of course, be necessary to decide which elements of the scheme should count towards the cost ceiling (e.g. should investment returns be taken into account, should past as well as future service costs be included, etc?). With regard to the automatic default, what it should be and how / when it should be triggered should be matters for the Minister responsible for the LGPS to decide (rather than there being a standard position that applies across all public service pension schemes). |
| 13. The Commission **is not proposing a single public service pension scheme**, but over time **public service pensions should move towards a common framework** for scheme design as set out in this report. However, in some cases, for example, the uniformed services, there may need to be limited adaptations to this framework. | The distinctive nature of the funded, locally accountable, LGPS must not be ignored or overlooked. Subject to that proviso, a move towards a common framework seems sensible given the degree to which there is likely to be voluntary and compulsory transfer of staff across different areas of the public service in the future. |
| 14. The key design features contained in this report should apply to all public | See 15 below. |

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| service pension schemes. The **exception is in the case of the uniformed services** where the Normal Pension Age should be set to reflect the unique characteristics of the work involved. The Government should therefore consider setting **a new Normal Pension Age of 60 across the uniformed services**, where the Normal Pension Age is currently below this level in these schemes, and **keep this under regular review.** | |
| 15. The **common design features laid out in this report should also apply to the LGPS**. However, it remains appropriate for the Government to **maintain the different financing arrangements for the LGPS** in future, so the LGPS remains funded and the other major schemes remain unfunded. | We agree that the high level key design features should apply to the LGPS but, within those, the LGPS should be allowed to develop the details in order to produce a scheme that best suits the range of employers and employees that participate in it. We agree that the LGPS should remain a funded scheme. |
| 16. It is in principle **undesirable for future non-public service workers to have access to public service pension schemes**, given the increased long-term risk this places on the Government and taxpayers. | We disagree with this recommendation as far as access to membership of the LGPS is concerned. A basic assumption for LGPS Funds' investment strategies is that the LGPS remains open to new entrants. This allows employer contributions to be set at a stable long-term level and helps to justify investment in higher risk equities. A reduction in the active membership base would mean that Funds would start to become mature more quickly than would otherwise have been the case and Funds would need to move away from equities into bonds. This could have an impact on the UK investment sector - in which the LGPS Funds have significant holdings - and lead to a rise in local authorities' contribution rates to the LGPS. Furthermore, whilst the |

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| | Localism Bill, the Cabinet Office's announcement of the 'Right to Provide' and the consultation paper on the 'Community Right to Challenge' all reflect the Coalition Government's policy to allow public sector employees to take over and run local authority services via employee led delivery models (such as co-operatives, mutuals, etc), employees may be less inclined to do so if continued membership of the LGPS is denied to them. |
| 17. Every public service pension scheme (and individual LGPS Fund) should have a **properly constituted, trained and competent Pension Board, with member nominees, responsible for meeting good standards of governance including effective and efficient administration**.<br><br>There should also be a **pension policy group** for each scheme at national level for considering major changes to scheme rules. | All LGPS Funds already have the equivalent of a Pension Board in the form of their pension committees and so, in essence, already meet this recommendation. Although the vast majority of Funds have member or Trade Union representatives we would not wish there to be a statutory requirement for Funds to have member nominees with voting rights given that, currently, the performance of the Fund has no direct impact on scheme members.<br><br>This element of the recommendation is already met as the LGPS currently has a national, pension policy group (the Policy Review Group) which considers major changes and reforms to the scheme rules. Subject to a review of the make up of its membership, the Policy Review Group should be allowed to continue to perform this role. |
| 18. **All public service pension schemes should issue regular benefit statements** to active scheme members, at least annually and without being requested and **promote the use of information technology** for providing information | We do not have concerns about this recommendation as LGPS Funds already issue annual benefit statements and make extensive use of information technology as a tool for communicating with employers and scheme members. |

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| to members and employers. | |
| 19. Governance and the availability and transparency of information would be improved by government establishing **a framework that ensures independent oversight of the governance, administration and data transparency of public service pension schemes.** Government should consider which body or bodies, including, for example, The Pensions Regulator, is most suitable to undertake this role. | In principle, we have no objection to this recommendation. It should be recognised, however, that LGPS Funds are already legally required to publish an annual report which must include all the items shown in regulation 34 of the LGPS (Administration) Regulations 2008 including, amongst other things, valuation funding levels, a governance compliance statement, a funding strategy statement, a statement of investment principles, and a statement of policy concerning communications with members and employing authorities. Despite the view given in paragraph 6.46 of the report, we believe that, given the role DCLG already play in relation to the LGPS, DCLG would seem to be the most suitable body to undertake an oversight role. This would, of course, have resource implications for DCLG that would need to be addressed. |
| 20. When assessing the long term sustainability of the public finances, the **Office for Budget Responsibility should provide a regular published analysis of the long term fiscal impact of the main public service pension schemes** (including the funded LGPS). | In principle we have no objection to this recommendation although we wonder to what extent this is relevant to the LGPS given that the LGPS is not covered by AME, the 89 LGPS Funds in England and Wales are locally funded and actuarially valued, and significant numbers of employers participating in the LGPS are not public service bodies per se. |
| 21. **Centrally collated comprehensive data, covering all LGPS Funds, should be published including Fund comparisons**, which, for example, clarify and compare key assumptions about investment growth and differences in deficit recovery plans. | DCLG already publish centrally collated data obtained via the Pension Funds' SF3 returns. Due regard must be given to the resourcing implications of this recommendation (if additional data has to be prepared and collated) and to the usefulness of the additional |

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| | data given that each LGPS Fund is unique and locally accountable. Much information not contained in the current SF3 returns can already be obtained by bodies if they wish to research the data published by each Fund in their annual report. |
| 22. Government should set **what good standards of administration should consist of in the public service pension schemes based on independent expert advice.** The Pensions Regulator might have a role, building on its objective to promote good administration. **A benchmarking exercise should then be conducted across all the schemes** to assist in the raising of standards where appropriate. | In principle we do not disagree with this recommendation. However, given the wide range of administration standards and service level agreements that are already embedded in scheme processes, and the different ways in which the various public sector schemes are administered in practice, full consideration will need to be given to the costs and practicalities of moving all public sector schemes to a common set of standards against which they can be benchmarked. |
| 23. Central and local government should **closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate,** across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to **realise greater efficiencies in the administration of pensions** by sharing contracts and combining support services, including considering outsourcing. | We do not have any specific concerns about this recommendation and are supportive of the co-operative approach. |
| 24. The Government should introduce **primary legislation to adopt a new common UK legal framework** for public service schemes. | We are not convinced of the necessity for new primary legislation as the schemes have managed to operate without difficulty within the existing primary legislation. In our view, the time taken to prepare new primary legislation could seriously |

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| | hinder the chances of delivering new schemes by 2015. The introduction of new schemes by 2015 and ensuring the long-term affordability of public sector pensions should take priority over any new primary legislation. Furthermore, we do not agree with the suggestion in paragraph 6.91 of the report that the consent of HM Treasury for future changes to benefit design or to valuing benefits should be extended to the LGPS as the LGPS Funds are locally financed and locally accountable. |
| 25. The **consultation process itself should be centrally co-ordinated**: to set the cost ceilings and timetables for consultation and overall implementation. However, the **consultation on details should be conducted scheme by scheme involving employees and their representatives**. | We agree with this recommendation i.e. that the central process should set the cost ceilings and timetables for consultation and overall implementation only. |
| 26. The Commission's view is that even allowing for the necessary processes it should be possible to **introduce the new schemes before the end of this Parliament** and we would encourage the Government to aim for implementation within this timeframe. | We agree that the Government should aim to implement a new LGPS by 2015. To achieve this tight timetable it is important that progress begins as early as possible, even more so given that the Chancellor, in his budget statement, said that the Government intends to set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer. What we need is a clear route map and timeline to get from where we are now to the introduction of a new scheme by 2015. This must include adequate time for regulations to be made and laid, actuarial guidance to be issued, communication materials to be produced and issued to employers |

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| | and scheme members, and new administration systems to be created, tested and implemented. We recognise, of course, that achieving this tight timetable may be difficult given there may well be opposition from the unions. |
| 27. **Best practice governance arrangements** should be followed for **both business as usual and the transformation process**, for each scheme. And there will also **need to be the right resource**, on top of business as usual, to drive the reforms; particularly given the challenging timescale and scope of the reforms. | Many of the matters we have mentioned in our response to recommendation 26 above have resource implications for employers, Pension Fund administering authorities, the LG Group, DCLG (pensions and legal) and actuarial advisers. The Government should ensure that DCLG, and GAD (if they are to be used for the provision of actuarial advice and guidance), are provided with adequate resources to deliver the required outcomes within the timeframe envisaged. |

Yours sincerely,

Mayor Sir Steve Bullock
Chair, Workforce Programme Board

Cc:
Rt Hon George Osborne, MP – Chancellor of the Exchequer
Rt Hon Danny Alexander, MP – Chief Secretary to the Treasury