

## **WIRRAL COUNCIL**

### **PENSIONS COMMITTEE**

**14 JANUARY 2009**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **FUTURE COST SHARING IN THE LGPS**

##### **1. EXECUTIVE SUMMARY**

- 1.1. This report is to inform Members of the statutory consultation exercise being undertaken by the Department for Communities and Local Government (DCLG) on draft proposals to amend the LGPS from 1 April 2009 to set up the framework for future cost sharing.
- 1.2 Members are requested to agree that a response be submitted expressing concern about the practicality of the proposed timetable.

##### **2. BACKGROUND**

- 2.1 Members previously considered this matter at the 31 March 2008 meeting of the Committee (Minute 105 refers) and the 24 June 2008 meeting (Minute 11 refers).
- 2.2 Regulation 40 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations currently states that:

“Administering and employing authorities shall have regard to guidance to be issued by the Secretary of State, before 31 March 2009, as to the manner in which the costs of the Scheme will be met after 31 March 2010”.
- 2.3. The letter dated 27 November 2008 circulated by the DCLG (Appendix 1 attached) sets out the policy context for the introduction of the cost sharing mechanism
- 2.4. The proposed amendments remove the current regulation 40 and replace this with a requirement that:
  - (a) Authorities have regard to guidance on how future costs will be met (New Regulation 36A(1) refers
  - (b) Administering Authorities provide the Secretary of State with the financial and other data by 31 July 2010 to enable the future service cost of the Scheme to be calculated (New Regulation 36A(2)).
  - (c) The Government Actuary’s Department (GAD) carry out an actuarial valuation of the combined English and Welsh Funds, and produce an overall future service cost for the Scheme by 31 December 2010, for the next triennium period (New Regulation 36A (3) and (5) setting out the assumptions made).

- 2.5. The proposed deadline for submission of data to the Secretary of State is ambitious and probably unrealistic, as it is dependent on Funds obtaining pay and contribution information from all of their employers as at 31 March 2010, updating this information and resolving any queries that arise before 31 July 2010 and for the GAD to then calculate a combined future service cost by 31 December 2010. I believe that extending both of these deadlines by three months would be more realistic.
- 2.6. The DCLG letter confirms that following the earlier consultation exercise carried out in Summer 2008 and in view of the lack of any firm agreement between the various stakeholders on the details of what costs should be shared that progress with this issue is to be made incrementally. The proposed statutory instrument is the first stage of this process setting out the regulatory framework. The GAD has also produced a set of illustrative examples of how cost sharing and employer cost capping could work in practice once the details and assumptions have been agreed.
- 2.7. It was agreed by the Policy Review Group that it would be helpful to carry out a dry run to construct a model fund based on the 2007 Actuarial valuation data. This is now underway and the results will provide the opportunity to test varying sensitivities of a national model fund. The final details and starting position for the new model fund are not expected to be put into place until the 2010 valuation with the first real cost sharing taking effect from the 2013 valuation.
- 2.8. The DCLG has pointed out that having regard to all the relevant circumstances and funding pressures facing Funds that in the meantime it may be necessary to introduce benefit changes or other cost saving measures in advance of cost sharing.

### **3. FINANCIAL IMPLICATIONS**

- 3.1. The objective of the introduction of a cost sharing arrangement is to ensure the long term sustainability of the Pension Scheme and to ensure that scheme members in future share in any agreed cost increase that arise.

### **4. STAFFING IMPLICATIONS**

- 4.1. There are none directly arising from this report.

### **5. EQUAL OPPORTUNITY IMPLICATIONS**

- 5.1. There are none arising from this report.

### **6. COMMUNITY SAFETY IMPLICATIONS**

- 6.1. There are none arising from this report.

### **7. HUMAN RIGHTS IMPLICATIONS**

- 7.1. There are none arising from this report.

**8. LOCAL AGENDA 21 IMPLICATIONS**

8.1. There are none arising from this report.

**9. PLANNING IMPLICATIONS**

9.1. There are none arising from this report.

**10. BACKGROUND PAPERS**

10.1 DCLG letter dated 27 November 2008 "Sustaining the LGPS in England and Wales".

**11. MEMBER SUPPORT IMPLICATIONS**

11.1. There are none arising from this report.

**12. RECOMMENDATION**

12.1 That Committee agree a response to the consultation on future cost sharing in the LGPS be submitted expressing concern about the practicality of the proposed timetable.

IAN COLEMAN  
DIRECTOR OF FINANCE