



Rt Hon Danny Alexander MP
Chief Secretary Treasury
HM Treasury
1 Horse Guard Road
London SW1A 2HQ

Direct Line: 0151 242-1390
Please ask for: Yvonne Caddock
Date: 22 October 2011

PUBLIC SECTOR PENSIONS BILL 2012

Dear Chief Secretary

Wirral Council is responsible for the administration of the Merseyside Pension Fund (MPF) which is part of the Local Government Pension Scheme (LGPS). The Merseyside Pension Fund deals with the LGPS pension administration and investments on behalf of the 5 Merseyside District Councils, and over 100 other employers on Merseyside and elsewhere throughout the UK.

The Fund has over 45,000 active contributing members, 44,000 pensioners and just over 33,000 deferred pensioners. It is responsible for the investment and accounting for a pension fund of £5 billion.

I refer to Public Sector Pensions Bill published on 13 September 2012 and which is scheduled for its second reading on 22 October 2012.

Wirral Council has significant concerns in regard to some of the provisions of the bill as currently drafted. The LGPS as a funded scheme has a long standing and proven track record of effectively managing its own affairs on a regional basis – administered by officers but locally accountable to democratically elected Councillors.

The provisions in the draft bill would indicate a policy change of potentially moving the responsibility for setting employer contribution rates and the timing of their application away from individual LGPS funds and into the hands of the HM Treasury.

This bill, as it is currently worded, would restrict the current, well established cost control and local Governance arrangements inherent within the structure of the LGPS – removing the accountability link between local funds, elected members and council tax payers, impacting on the flexibility to manage funds to reflect local circumstances.

In particular, the draft bill sets out new powers for the Treasury to specify “the data, methodology and assumptions” to be used when undertaking valuations for public sector pension schemes and to determine the point at which any revised employer contribution rates are to apply.

At present the assumptions used in the valuation of LGPS funds and the phasing in of any changes to employer contribution rates are determined locally by each administering authority, acting on the expert advice of their actuary. Individual funds are therefore able to use assumptions that are appropriate to local circumstances and subsequently any particular investment strategy in managing employer contributions within known budgetary constraints. Any changes to employer pension contributions that may arise from a fund valuation can be phased in to coincide with the provisions made in their medium-term financial planning.

In addition, many LGPS funds use tailor-made demographic assumptions that are particular to that fund's individual experience of longevity or membership behaviour, which can vary significantly from fund to fund.

It is recognised that the bill introduces primary legislation to deliver a common legal framework for public service pension provision, and facilitates secondary legislation for each individual scheme to design its preferred benefit package - within prescribed parameters.

As the provisions within the bill with regard to the Treasury's power in setting the valuation assumption are permissive rather than mandatory, it is necessary that the primary legislation acknowledges the disparate funded nature of the LGPS to other public sector pension schemes and its separate funding arrangements.

This measure is contrary to the political intention of the Localism Act which aims to empower local councils. Consequently, there would be adverse implications for the way in which the funded LGPS is managed and raises questions over the continuation of democratic accountability, affordability and sustainability of local funds.

Finally, I wish to indicate a further concern, that the bill proposes to close all existing public sector Schemes to future accrual and if enacted as drafted, the pension arrangement for locally elected Councillors will end with no continuation of any future pension accrual.

Consequently, to allow their continued participation either the bill will require amendment or provision will have to be made for subsequent access to the main LGPS Scheme in 2014.

Yours sincerely

Peter Timmins

Interim Director of Finance