

Public Service Pensions Fair Deal
Consultation
Workforce, Pay and Pensions Team
Public Services and Growth Directorate
HM Treasury
1 Horse Guards Road,
London,
SW1A 2HQ

Our Ref: PS/PM
Your Ref: Fair Deal Consultation
Direct Line: 0151 242 1390
Please ask for: Peter Mawdsley
Date: 20 May 2011

Dear Sir/Madam,

Consultation on the Fair Deal Policy

I refer to the above mentioned consultation document dated March 2011 and am responding to the invitation for comments on behalf of Wirral Council in its capacity as the Administering Authority of the Merseyside Pension Fund.

Wirral Council is responsible for the administration of the Merseyside Pension Fund 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 50,000 active contributing members, 41,359 pensioners and just over 34,000 deferred pensioners. It is responsible for the investment and accounting for a pension fund of £4.5 billion. The LGPS is a defined benefit, final salary public sector occupational scheme.

The constituent employers within the Fund will hold a variety of views on the questions posed in the consultation document and will be able to respond on an individual basis.

The Fund response supports that previously submitted by the Local Government Group (which represents local authorities on a national basis), in its response dated 12 April 2011, which concentrates on matters that we believe the Government needs to consider carefully before reaching any conclusions and making decisions on this matter.

The Fund would support the LG Group contention that a further policy objective in addition to the four listed in paragraph 3.2 of the consultation document which needs to be taken into account; that additional objective is **“to ensure the ongoing sustainability of the funded Local Government Pension Scheme (LGPS)”**.

In its response to the Independent Public Service Pensions Commission’s (IPSPC) call for further evidence, the LG Group said: “We believe that the principles of Fair Deal should be retained but be simplified for all parties whilst ensuring, as far as possible, that there is a level playing field. The option in the LGPS for contractors to enter into an admission agreement should be retained.”

The final report from the IPSPC however included the following recommendation:
“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.”

If the Government follows that recommendation and Fair Deal were to continue in its present form, contractors would only be able to offer outsourced staff a broadly comparable scheme rather than having the choice of being able to offer continued access to the LGPS via an admission agreement as an alternative to a broadly comparable scheme.

This could lead to a reduction in the LGPS’s broad active membership base at a time when its membership is already reducing, due to reductions in the general local government workforce during the Spending Review Period and is under threat from a potentially significant increase in the number of employees deciding to opt out of the scheme if a large increase in the level of employee contribution rates is introduced. (The latest membership figures for the Fund indicate a reduction in the total active membership from over 50,000 to 48,179 today).

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.

Equally, regardless of whether or not the Government accepts the IPSPC recommendation, if Fair Deal is discontinued or watered down there would be a number of implications. For example:

It is likely that Funds would then become mature more rapidly. This is because there would inevitably be greater levels of outsourcing. In house bids would be less likely to succeed given that they would have to offer membership of the LGPS whereas contractors’ bids could be constructed on the basis that they would not have to make such good pension provision. The consequential reduction in the membership base of the LGPS would have the same effects as set out in the paragraph above.

Whilst the 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 (e.g. co-operatives, mutuals, etc), employees may be less inclined to do so if continued membership of the LGPS is denied to them.

The Fund would therefore support the proposal that when considering question 3 in the consultation document, the Government should recognise the concerns expressed above and accept that a further policy objective should be; **to ensure that LGPS Funds remain sustainable and viable, via a broad active membership base.**

The Merseyside Fund would support the proposal that the principles of Fair Deal should be retained but be simplified for all parties whilst ensuring, as far as possible, that there is a level playing field. The option for those bodies to which staff are compulsorily transferred to be able to enter into an admission agreement in the LGPS should be retained.

A summary of the active membership of admission bodies currently in force for the Merseyside Fund is given in the attached annex. This gives details in respect of staff who in the main were transferred from local authorities to private contractors or other new organisations as a consequence of Government initiatives. The 4,518 active employees of some 45 organisations including private contractors, housing bodies and transport undertakings represent a significant part of the membership of the Scheme.

A further 30 other voluntary organisations which provide a public service to the community which are also admitted the Fund are not included in these figures.

This Fund shares the LG Group view that Admission agreements have, worked well and that they do not suffer from the problem identified in paragraph 3.5 of the consultation document. Whilst this may be a problem in other public sector schemes, where employers pay standard contribution rates, employers in the LGPS each have their own individual employer contribution rates. Thus, if a body participating in the LGPS awards greater than expected pay rises, this can be reflected in that employer's contribution rate to the LGPS.

The Fund would reiterate the two other general points made by the LG Group in its response that appear to have been overlooked in the consultation document:

Although those elements of an occupational pension scheme relating to old age, invalidity and survivors' benefits are excluded from transferring under TUPE, the exclusion does not extend to early retirement benefits (such as payment of benefits on redundancy). This is not mentioned in the consultation document and yet is an important aspect that should not be overlooked as it will impact on decisions as to how / if Fair Deal should operate in the future.

Also the consultation document makes no mention of the bulk intra public service staff transfers that increasingly occur as a result of machinery of government changes which create their own pension protection issues. Decisions will, therefore, also need to be taken on whether, and if so how, Fair Deal should operate in respect of such transfers in the future.

If you require any further information or assistance please do not hesitate to contact me.

Yours faithfully

Deputy Head of Pension Fund

Annexe

Merseyside Pension Fund Admitted Employees - Contractors

Number	Name	Actives	
727	Arena Conf Centre	85	
720	Arvato	375	
729	Balfour Beatty	16	
184	Birkenhead Market Services	15	
721	Capita Symonds(Sefton)	100	
728	Colas	47	
718	Compass Scolarest Lpool	4	
717	Compass Scolarest Wirral	24	
170	Gtr Merseyside Connexions	329	
190	Enterprise Lpool Cleansing	156	
168	Enterprise Lpool Highways	95	
709	Enterprise Lpool Grounds	60	
194	Geraud Markets	5	
708	Glendale Parks	94	
730	Graysons Restaurants	5	
714	Higher Educ Services	2	
712	Hochtief Lpool Schools	17	
713	Hochtief Wirral Schools	22	
710	Kingswood Colomendy	11	
719	Liberata UK	57	
722	Liverpool Vision	45	
173	Mott Macdonald (MIS)	6	
700	Mouchel 2020 Knowsley	18	
185	Mouchel 2020 Liverpool	97	
703	Novas Group	4	
707	Sefton New Directions	412	
186	Taylor Shaw Catering	4	
725	Veolia ES	40	
	Sub total	2145	2145

Admitted Employees	Housing Bodies		
199	Beechwood Housing	2	
181	Berrybridge Housing	17	
180	Cobalt Housing	25	
89	CDS Housing	120	
188	Greater Hornby Homes	4	
171	Helena Partnerships	512	
172	Knowsley Housing Trust	411	
187	Liverpool Housing Trust	8	
179	Lee Valley Housing	8	
715	Lpool Mutual Homes	202	
705	One Vision Housing	208	
154	Port Sunlight Village	15	
153	South Liverpool Housing	8	
113	Villages Housing Assoc	3	
197	Wirral Partnership Homes	423	
	Sub total	1966	1966

Admitted Employees	Bus Companies		
76	Arriva	362	
163	Glenvale/Stagecoach	45	
	Sub total	407	407

Grand total 4518