

Personnel Panel - 12 January 2004**LOCAL GOVERNMENT PENSION SCHEME
PHASE 2 POLICY PROPOSAL DISCUSSION PAPER
CIRCULAR FROM THE OFFICE OF THE DEPUTY PRIME MINISTER****Report of the Corporate Management Team****Statutory Powers:- Local Government Act 1972****Financial Implications:- None at this stage****Purpose**

To inform the Personnel Panel of the current policy review being undertaken by the Office of the Deputy Prime Minister (ODPM) in to the Local Government Pension Scheme (LGPS) and to comment accordingly.

Recommendation

It is recommended that the Personnel Panel considers the various options for comment as identified in this report and for these views to be forwarded to the ODPM

Background

1. Members will remember the earlier stock take review of the LGPS undertaken by the National Employer Organisation in April last year. Part of this review was to consider how the LGPS may change in view of the Government's White Paper "*Simplicity, security and choice: Working and saving for retirement – Action on occupational pensions*"
2. The process has now moved on and authorities are being asked to comment on various policy proposals currently under consideration by ODPM. It is understood that these policy proposals will form the basis of the statutory consultation exercise presently earmarked to begin in Spring of 2004.
3. Members will need to view the proposals in the light of the Council's prudent record of managing early retirement over the past few years and in particular the changes made to the Early Retirement policy in 2000.

General Observations

4. The time scale will be important in any proposed change. The Government's own White paper referred to earlier, sets a time frame of 2010 as the date for harmonisation of changes for occupational pension schemes. This is also the target date for the Inland Revenue to revise

changes to taxation of pensions as part of the Governments desire to allow a more flexible approach to retirement

5. In terms of any potential detrimental effect on morale, the impact of any change will be most keenly felt by long serving employees whoes expectations of the pension scheme will have been built up over many years. Some employees will have over 30 years membership and will be making retirement plans based upon what has been hitherto guaranteed to them under the scheme. The Council needs to be aware of this in considering the proposals.
6. There is also the potential for the LGPS to be “de-regulated” and that in future authorities may be given greater local discretion in terms of determining contribution rates and benefits. This market place approach could act against smaller authorities, where national competition for staff could mean they may have to adopt expensive improvements to pensions to arrive at a more attractive remuneration package. Issues of recruitment and retention in a national market are relevant to consider.
7. It is appreciated that the whole question of occupational pensions has come to the fore in the last two to three years as a result of a combination of factors ie increasing longevity, falling stock market values and demographic changes (ageing population). Changes can be expected to LGPS and these will need to be in place by 2010 (on current timescales). The important issue is that of the pace and fairness of the changes. There is also the relevant matter of how any change is arrived at in law in terms of scheme members contracts of employment. Away will need to be found which will make any change lawful and not entail national dispute or protracted litigation (the current litigation surrounding part time employees rights to LGPS has been running since 1995).

Policy Proposals

8. The attached table identifies major policy areas highlighted by ODPM for discussion and includes relevant issues identified by the Corporate Management Team and the Personnel Manager which the Personnel Panel will need to considered. Preliminary comments, where appropriate, have also been included in the table.
9. A fundamental issue to address is the apparent wish to make any changes effective from one arbitrary date ie April 2005. This will have a serious impact on all employees who are currently close to 50 years old. The proposed blanket approach could encourage the loss of valuable and experienced staff which in turn could result in engendering resentment amongst colleagues who, because their birthday falls the wrong side of the 1st April 2005, will have suffered a very real detriment in their terms and conditions. The life plans for both groups of employees would have been based upon similar expectations but the outcomes could be very different.

10. Members are asked to view the possible policy changes and comment accordingly so that a response can be forwarded to ODPM.

Risk Assessment

11. A number of risks can be identified:-

- Potential detrimental affect on morale (particularly amongst long serving and experienced employees);
- Dangers of creating a pension “free market” where authorities may have to compete with each other to attract and retain staff resulting in higher pension costs;
- Impact of making contractual changes which remain lawful and not subject to challenge;

12. The Council will need to bring influence to bear on the National Employers Organisation to ensure that the forthcoming statutory consultation on changes to LGPS, defends principles of fairness and timeliness and safeguards authorities from being embroiled in harmful national industrial action and/or protracted legal challenge.

Human Rights Act

13. There are no direct implications under the Human Rights Act in respect of the contents of this report. The National Employers Organisation how ever will need to be mindful of the requirements of the Act when considering any changes to the pension scheme.

Corporate Management Team

**Personnel Panel
12 January 2004**

Background Papers:-

Office of the Deputy Prime Minister

Phase 2 Policy Proposals Discussion Paper (7th November 2003)