

LOCAL GOVERNMENT PENSION SCHEME (LGPS)

Commentary and Update for 8 March meeting

1. The Government is committed to decent and secure pensions for local government employees. But the Local Government Scheme must also remain affordable, viable and fair to taxpayers, who guarantee the security of the pension promise. A key area for the trades unions and local government employers is their negotiations regarding the terms of the benefit package offered by the Scheme, and how its increasing costs are met between employees and employers.
2. As pension costs increase, primarily due to our increasing longevity, employers' liabilities increase. This in turn puts pressure on budgets, services and so council tax bills. The affordability and viability of the LGPS, even allowing for the success of its pension funds' investments – which produce £2 billion a year to offset employer costs – is, therefore, critical.

Current draft proposals

3. To assist in the need for affordability and to comply with the law, a particular provision in the Scheme, the 85 year rule must be removed from the Scheme from 1 October as it is believed to be age and gender discriminatory. The rule is seen to discriminate against women who are more likely to start work for their local government employer post age 35, and are therefore less likely to be in a position to take advantage of a rule based on age and service.
4. Protections until 2013 for existing scheme members have been initially proposed in the recently concluded statutory consultation exercise. These provided a starting point for discussions between LGPS interests about Scheme reforms and improvements. As part of the consultation process, ODPM has actively sought views from the trades unions, local government employers and other LGPS interests on a nothing ruled in nothing ruled out basis. No final decision has yet been taken by Ministers on the form of any transitional protections.

Next steps

5. The statutory consultation on the removal of the 85 year rule and other proposed Scheme amendments, to bring the Scheme in line with Finance Act 2004 tax simplification measures, ended on 28 February. The Government will now need to consider responses to this consultation before coming forward with final regulations. We are still working to the timetable, laid out in December, of having regulations coming into force in early April.
6. The trades unions, including Unison and the GMB, are balloting for strike action amongst their members as they oppose the removal of the 85 year

rule without an alternative equivalent provision, or full protections, for existing scheme members.

7. However, the government's legal advice is clear – the 85 year rule discriminates on grounds of age and gender and must be removed from the scheme. Some continuation of the benefit beyond 1 October can be objectively justified for those existing scheme members closest to retirement who do not have time to make other arrangements.
8. However, broadening the protection of the benefit for the lifetime of all other existing scheme members cannot be objectively justified, and – at an estimated cost of £5-6bn - has not been seen as affordable.
9. As long as proposals to amend the Scheme's regulations can be shown to be affordable, legal and acceptable to taxpayers, Ministers will give them careful consideration.

Challenges to the proposals

10. Unison have notified the Deputy Prime Minister of their intention to seek judicial review of the draft amending regulations, in the event that these are not withdrawn, as they believe that the Deputy Prime Minister's view that the 85 year rule is age-discriminatory is a mis-direction in law. Any legal challenge will be dealt with according to the appropriate procedures.

Long-term reform of the scheme

11. Looking to the future, all LGPS interests are committed to sustaining and improving the scheme. The cost of the existing scheme is increasing as our longevity increases and adjustments need to be made so that it remains affordable, viable and fair to taxpayers. ODPM wants to continue holding meetings as planned, to discuss necessary reform of the LGPS with the trades unions, local government employers and other interested parties.
12. The Government and LGPS interests agree on its value and its importance in terms of motivating existing workers and in recruiting and then retaining staff. As local government and its associated employers and the trades unions accept, it is desirable that the Scheme now needs to be reformed to suit the workforce needs of the 21st century. For example, the workforce is increasingly made up of female part-time workers and, on average, people are living longer, compared to the early 1970s when the essentials of the current benefit structure of the Scheme were put in place.

LGPS working groups

13. Following the publication of and consultation on *Facing the Future: Principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales* in 2004, work has now begun, in consultation with LGPS interests (including the trade unions

and with local government and other employers, at regular meetings) to prepare a policy discussion paper, to be published in June, for consultation and analysis throughout the summer on the form and content of a new-look Scheme. There is already a considerable degree of support for such an approach and for the key elements of such a Scheme at this time.

14. A number of working groups are currently contributing to the development of a new-look scheme. Work is progressing on specific issues such as Governance and Representation, Administration, Admitted Bodies and Ill-Health, through groups attended by the relevant experts. Two main groups are taking forward the development of a new benefit package for the new-look scheme - a stakeholder liaison group attended by the Tripartite Committee members (the LGA/EO and the trades unions) and a parallel group attended by non local authority employers, other trades unions and other LGPS interested parties such as Treasurers and HR professionals. The Government Actuary's Department, LGPS fund actuaries and other actuaries play an important role in these discussions and their costings will continue to form the basis of on-going work.
15. This combined effort will allow for the subsequent preparation of, and consultation on, the necessary legal framework for the new Scheme in autumn this year and for it to be in place for April 2007. This will then allow administrative authorities and employers time to prepare for the changes which take effect from April 2008 when the new-look Scheme becomes operational.
16. There is, therefore, a considerable amount to do and hopefully, with collective support, it can be achieved.

**LGFPD
ODPM
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