

WRITTEN MINISTERIAL STATEMENT

Local Government Pension Scheme

Brandon Lewis MP

Parliamentary Under Secretary of State for Communities and Local Government

The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low and moderate earnings." The Local Government Pension Scheme currently costs the taxpayer £6 billion a year.

On 17 July, my friend, the former Parliamentary Under-Secretary of State for Communities and Local Government, made a statement to the House that the Local Government Association and local government trade unions had started informal consultations with their respective memberships on designs for a new Local Government Pension Scheme to be in place by 2014.

Those informal consultations are now concluded. I can report to the House that in a joint statement issued by the Local Government Association and local government trades unions on 30 August, 90% of employers; 90% of UNISON members; 95% of GMB members and 84% of UNITE members, were in favour of the proposed scheme design. A copy of the Joint Statement can be found at www.lgps.org.uk. A copy of the statement has been placed in the House libraries.

In a letter to the Local Government Association of 30 May, my friend, the former Parliamentary Under Secretary of State for Communities and Local Government, agreed that a favourable outcome of the informal consultation would enable the Department to move directly to a statutory consultation exercise in the Autumn to implement these proposals. I can now confirm that we will be consulting on draft regulations to implement the matters set out below at the earliest opportunity and will also be seeking an agreed position on other issues that the Local Government Association and the trade unions have proposed, such as scheme governance and cost control.

The intention remains to have the new scheme regulations in place to coincide with the next Scheme valuation in 2013 to enable local fund actuaries to reflect elements of the new design in this process before the reformed Scheme comes into operation in 2014 and to give software and payroll providers sufficient time to establish and test procedures for the scheme after April 2014.

The main parameters forming the basis of the forthcoming statutory consultation are set out below :

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A start date of April 2014 with core elements of the new scheme regulations in place by March 2013

A pension scheme design based on career average and actual pay

An accrual rate of 1/49th of pensionable earnings each year

Revaluation of active members' benefits in line with a price index (currently Consumer Prices Index)

A Normal Pension Age equal to the State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's State Pension Age rises, then Normal Pension Age will do so too for all post-2014 service

A low cost optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate

Pensions in payment to increase in line with a price Index (currently Consumer Prices Index)

Benefits to increase in any period of deferment in line with a price index (currently Consumer Prices Index)

Average member contribution yield of 6.5%, with tiered contributions

Optional lump sum commutation at a rate of £12 of lump sum for every £1 per annum of pension foregone in accordance with HMRC limits and regulations

Early/late retirement factors from age 55 on an actuarially neutral basis

A vesting period of two years

Spouse and partner pensions to continue to be based on an accrual rate of 1/160 and three times death in service benefit

Ill-health retirement pensions to be based on the current ill-health retirement arrangements.

There will be transitional protection in respect of:

All accrued rights are protected and those past benefits will be linked to final salary when members leave the scheme

Protection underpin for members aged 57 to 59

Rule of 85 protection as in the current scheme.

The consequences of the new Fair Deal for the local government workforce will be considered by the Department for Communities and Local Government in view of the

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extant Best Value Authorities Staff Transfers (Pensions) Direction 2007 and Admitted Body Status in the Local Government Pension Scheme

The Government Actuary's Department has confirmed that the scheme design set out above does not exceed the agreed cost ceiling of 19.5% of pensionable pay. A copy of the Government Actuary's Department verification has been placed in the Library.

The initial focus of the statutory consultation exercise will be on the Local Government Association and local government trades unions' proposals for the design of the new scheme from April 2014. The Public Service Pensions Bill introduced on 13 September set out new arrangements for the future of public service pension schemes. This Bill provides a strengthened framework for administration, transparency, governance and cost control of the schemes, including the Local Government Pension Scheme. Although still matters under consideration, the provisions in the Bill do not rule out any of the Local Government Association and local government trades unions' proposals on governance and cost control. I will continue to work closely with those bodies during the statutory consultation to consider these important matters further and in light of issues raised during the consultation.

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