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Joint Union Newsletter 2 **21 December 2011**

JOINT AGREEMENT ON PRINCIPLES AND TIMETABLE FOR DISCUSSIONS ON THE FUTURE OF THE LGPS IN ENGLAND AND WALES

Attached you will find the agreement reached with the Local Government Association (LGA) over principles and a timetable for negotiation over contributions and the scheme design of the LGPS in England and Wales from 2014. The government accepted that the LGPS – as a funded scheme with a high proportion of low earners – was different to the other ‘pay as you go’ schemes and has therefore given the go-ahead for a longer period of negotiation, over the short and long-term issues. **The government has also agreed to suspend the formal consultation on short-term savings while negotiations take place from January 2012.**

This agreement does not apply to the LGPS in Scotland, where there are no current moves to change the scheme. In Northern Ireland, the NI Executive has indicated that it intends to make the same changes as in England and Wales.

IMPORTANT PRINCIPLES IN THE AGREEMENT

- Zero contribution increases for most members and no change in contributions, if required, until 2014
- Maintain the inherent and relative value of the pension to other public sector schemes
- Prevent opt-out from the scheme and encouraging new members
- Keep Admitted Body Status
- Ensure employers maintain the required contribution levels

- Establish new governance mechanisms at scheme and individual fund levels to ensure good governance and reduce central government intervention

- Negotiation – rather than imposition - of future changes post 2014 - if any are necessary

- Improve efficiency through a review of procurement, fund management and administration

The agreement with the LGA follows below. Some explanatory notes follow the agreement.

EMPLOYER AND UNION DISCUSSIONS ON THE FUTURE OF THE LGPS

At the meeting of the 15th November between LGA lead members and officials from the GMB, Unison and Unite it was concluded that discussions should be progressed with the aim of reaching agreement on a set of high level principles for the Local Government Pension Scheme.

In setting this objective all parties accept that any agreement which may be reached would be subject to consultation with and confirmation by their respective memberships.

The following document is the result of the above discussions and forms the Heads of Agreement between the LGA and UNISON, GMB and UNITE (on behalf of the LGPS unions)

THE PRINCIPLES

In scoping the principles it was recognised that the initial design of the new scheme is but one of a two part process. The second (and potentially most important part) being the setting of the employer contribution cap and the associated cost management and governance mechanisms required to ensure that the scheme can in future manage its own affairs without the need for secondary legislation .

Furthermore all parties accepted that both parts of the process must be progressed simultaneously in order to avoid the potential for misunderstanding and delay which may otherwise result.

In respect of the timetable for progress there was mutual recognition that the real driver should be the requirement to have regulations in place by April 2013. The government's desire for progress on a scheme outline by the end of 2011 was recognised as a valid aspiration within that overall timetable. In this respect this document should be read in conjunction with the timetable which follows entitled;

LGPS 'SINGLE STEP' SOLUTION: TIMESCALE, MILESTONES AND ACTIONS REQUIRED

The principles set out below are based on the broad parameters set out in the meeting of the 15th.

NEW SCHEME DESIGN PRINCIPLES

Principle 1. A single solution to both short and long term issues by the early introduction of the new scheme (regulations by April 2013 and implementation from April 2014) negating the need for scheme changes prior to April 2014.

Principle 2. That the single solution be designed around options that will be worked on the basis of career average and can include zero increases in employee contributions for all or the vast majority of members provided overall financial constraints are met (recognising that such constraints may change subject to further negotiations with Treasury on meeting the costs of protections – principle 7 - and that there will be no triple counting of recycled savings).

Principle 3. That the new scheme incorporates some elements of choice designed to encourage both retention of existing membership and encourage new membership.

Principle 4. That scheme costs are based on actual experience and the base numbers are provided by Government Actuary's Department (GAD) from the model fund data, can be independently verified and are supported by the Association of Consulting Actuaries (ACA).

Principle 5. In order to encourage flexible retirement, the age at which benefits may be taken (the pension age) is to be any time between 55 and 75. Benefits are to be adjusted up or down relative to the proximity of the pension age to the Normal Pension Age (NPA) which is to be linked to State Pension Age (SPA) or age 65 whichever is later.

Principle 6. That access to the scheme be provided for a broad range of employees who deliver public services through the continuation of current Admitted Body Status (ABS) arrangements

Principle 7. That the method of meeting the cost of protections (final salary and retirement age in the old scheme and the 10 year protection of pension and age into the new scheme), their value relative to other public sector schemes and their scope for recycling need to be confirmed by Treasury.

Principle 8. That scheme cost efficiencies be realised through more effective procurement and provision of both administration and investment services

Principle 9. That the LGPS maintain its relative value in terms of benefits in relation to other public sector schemes

Principle 10. That the scheme design be subject to robust and independent equality impact assessment to ensure it meets all legislative equality requirements in both effect and intent

MANAGEMENT AND GOVERNANCE MECHANISM PRINCIPLES

Principle 11. That the value of the ongoing scheme and the employer contribution cap within that value be set by agreement between the principal stakeholders of the scheme.

Principle 12. That the employer contribution cap contains both ceiling and floor values (cap and collar)

Principle 13. To ensure the long term sustainability of the scheme the mechanisms of management and governance necessary to maintain employer contributions within the cap and collar be set by scheme regulation, be under the control of the principal stakeholders of the scheme and use model fund data.

Principle 14: The mechanisms shall include tools to vary liabilities and revenue (e.g. changes to the benefit structure and / or employee contribution rates). The mechanisms shall also include a default position should agreement not be reached within a preset timescale. However such a default position should not contain a predisposed and disproportionate disbenefit to either employees or employers

Principle 15. That a clear and effective mechanism be put in place to translate the effects of cap and collar to individual employers in the LGPS. In particular the circumstances which will allow for individual employer rates to be set outside of the cap and collar.

Principle 16. That within the cap and collar individual funding levels are to be monitored and constrained within an acceptable range.

Principle 17. That the cap and collar mechanism be an intrinsic part of the agreement on the new scheme not a separate process.

LGPS 'SINGLE STEP' SOLUTION: TIMESCALE, MILESTONES AND ACTIONS REQUIRED

A significant principle currently under discussion by union officials and LGA is the meeting of both short and long term pensions reform objectives by a single step to a new scheme earlier than the 2015 date proposed in the reference scheme.

The principle under discussion is:

Principle 1. A single solution to both short and long term issues by the early introduction of the new scheme (regulations by April 2013 and implementation from April 2014).

This document sets out the timescale, milestones and actions which would be required in order to put this principle into effect.

OBJECTIVE

The timescale for this process is determined solely by the requirement to have regulations in place by the 30th March 2013. Without regulations being in place by that date fund actuaries will not be able to take the effect of scheme changes into account for the 2013 valuation and therefore short term reform objectives will not be able to be met.

Having regulations in place by March 2013 also provides sufficient time for the necessary changes to systems, process and most importantly member communications to be made.

Recognising the constraints we face the timescale envisages a four stage approach. The approach has the objective of achieving all four stages but also that stages 1 to 3 are absolutes whilst stage 4 could be delayed.

Stage 1 – agreement on principles and timescales
Stage 2 – agreement on 'big ticket items (contributions, accrual rate, revaluation rate, protections, employer cap, cost management mechanism - outline),
Stage 3 – agreement on remainder of scheme design and cost mechanism details
Stage 4 – agreement on mechanism to provide assurance of effective management of individual funds

TIMETABLE

- Nov/December 2011 – discussions on stage 1, consultation and sign off process for unions and employers, submission to ministers for approval

- Jan to April 2012 – discussions on stage 2, consultation by unions and employers on proposals resulting from discussions, costing of stage 2 scheme by GAD

- April to September 2012 – joint communication programme for scheme members, redesign of systems and procedures, setting up of cost management mechanism, commence drafting of regulations

- April to November 2012 – discussions on stages 3 and: 4, consultation by unions and employers on proposals resulting from discussions, costing of stage 3 scheme by GAD

- September 2012 to March 2013 –,consultation on and making and laying new scheme regulations to reflect the outcome of the above process

- March 2013 - commencement of scheme valuation

- October 2013 –initial valuation results

- October 2013 to March 2014 – pre implementation communications for members and employers, parallel run of systems and procedures, test run of cost management mechanism against model scheme

- April 2014 – New scheme in place, new employer contributions from 2013 valuation in effect

MILESTONES

In order for the process to be achieved successfully the following milestones will need to be met;

- By 31st December 2011 –stage 1 principles for scheme design and cost management agreed by unions and employers and accepted by government as a robust direction of travel

- By April 2012 – agreement on stage 2: the 'big ticket' items for the new scheme. Acceptance by government of cost management mechanism. Achievement of this milestone to be managed as set out in the section which follows entitled **Stage 2 decision management process.**

- By September 2012 – commencement of process required to draft regulations and complete statutory consultation. Recognising that consultation may overlap the process below

- By November 2012 – agreement of and consultation on stages 3: and 4. Recognising that consultation may overlap the DCLG process above

- By 30th March 2013 – new regulations in place

ACTIONS

In order to achieve the above timescale and milestones the following actions will be required some of which will be the responsibility of others to ensure the timetable is adhered to.

- Formal sign off/acceptance processes to be completed by both employers and unions within timescales shown (e.g. employers side will require approval by Executive at stage 2)

- An independent equality impact assessment to be carried out at stages 2 and 3 to ensure that the proposals are fair and meet all legislative equality requirements in intention and effect.

- Response by government to the principles and proposals at stages 1 and 2

- Necessary calculations to be commissioned by DCLG and produced by GAD and/or ACA for the proposed scheme at stages 2 and 3 within the timescale shown

STAGE 2 DECISION MANAGEMENT PROCESS

It is imperative that assurance is provided to all stakeholders of the commitment to achieve the objectives of stage 2 within the timescale. The agreement of the 'big ticket' items is vital to the success of the overall project and will therefore require robust management of the time and resources available. It is therefore intended to use the principles of PRINCE2 project management to ensure an effective outcome.

The process will therefore include

1. LGA to provide secretariat and project management support for the process to include the provision of a project plan, setting and hosting meetings, takings minutes, maintaining an actions log, a risk log and the provision of regular reporting.

2. The project plan to include objective dates for agreement in principle on the following scheme elements:

    - Confirmation of the basis of the scheme design (e.g. CARE)
    - The accrual rate for the scheme
    - The revaluation rate
    - The actuarial methodology for variation to benefits either side of the NPA
    - The value, distribution and phasing of any employee contribution increases
    - Transitional protections
    - The parameters of the employer cap and collar
    - The mechanism for variation of the elements to maintain scheme costs within the cap and collar values
    - Recommendations on best practice in governance and procurement

    together with sufficient time for the necessary consultation and formal agreement process for both unions and the LGA. This project plan to be available in draft form to the first meeting of the project team.

3. The creation of project team to work up costed options for the above elements, consider the implications of each on the overall cost balance and equality impact of the new scheme and make recommendations to the project board. This team to meet weekly and consist of officials from lead unions (to include pensions officers), LGA and DCLG.

4. The creation of a project board to include union leads, lead members from LGA and senior DCLG officials to meet fortnightly and have the ability to ratify in principle the recommendations of the working group. This group would also have responsibility for ensuring the elements of the project plan are adhered to

including the identification of blockages and the action required to rectify any slippage.

5. Support from GAD, ACA and Treasury officials to provide accurate and agreed costings of the options and agreed recommendations

6. Fortnightly reporting to DCLG and Treasury ministers and LGA executive on progress against the plan, blockages and risks identified and any remedial action being taken.

7. The project team to meet first on the 3rd January and then on each Monday. The project board to meet first on the 11th January and then every second Wednesday. Reports to be available to DCLG and Treasury ministers firstly on the 13th January and then on every second Friday.

EXPLANATORY NOTES

Below are some notes which give you the background to the agreement.

1. WHAT IS THE AGREEMENT?

The agreement combines ***principles*** for negotiations on contributions, new scheme design and scheme management and governance within the LGPS. It also puts forward a ***timetable*** for negotiations which will start in early January 2012.

It does ***not*** contain detailed proposals for cost saving/contribution increases or the new scheme design from 2014 which will be the subject of those negotiations.

2. WHO NEGOTIATED IT?

The principles and timetable were negotiated by lead officials from Unite, GMB and UNISON and our respective Pensions Officers – on behalf of the 11 unions in the LGPS TU Side - and the Leaders of the three main political groupings on the LGA – Ian Greenwood (Labour), Roger Phillips (Conservative) and Steve Comer (Lib Dem). Also present has been the LGA's Pensions Officer, Jeff Houston and – on occasions – Steve Bullock, Chair of the LGA's Workforce Board, a representative of the Wales LGA and officers from Local Government Employers. Sir Merrick Cockell, LGA Leader has been engaged throughout.

There is cross-party consensus within the LGA on the principles and approach put forward

SGE Chairs were consulted at key points in the negotiations

3. BASED ON THE 'REFERENCE SCHEME'

The principles reflect the government's 'Reference Scheme' as outlined in the Chief Secretary to the Treasury's letter to Brendan Barber of 2 November. This essentially means that the presumed new scheme will be CARE – Career Average – (although we will want to ensure comparability with the current final salary arrangements), that the accrual rate is at least 1/60 and that there is protection for those within 10 years of retirement, plus some tapered protection. There will be a link to the State Pension Age, though with flexible retirement options. We will look at the final salary option for comparability purposes.

4. A 'SINGLE STEP' SOLUTION

The document outlines a 'single step solution' to the £900m required short-term cost saving, the new scheme design required from 2014 and the employer cap (which would follow new scheme design under the government's current approach). All parties felt that a 'single step' approach would enable us to deal more effectively with contribution increases – i.e. minimise or eradicate the need for them and ensure that a damaging employer cap is not imposed on the new scheme after it has been designed. It makes sense to look at all elements of the scheme in one 'hit'.

5. NO CHANGE UNTIL 2014

The principles are based on ***no change*** until 2014, including contribution rates. Any change would be reflected in the next valuation in 2013. Regulations would be laid by March 2013 to enable change to take effect in 2014. We believe in any case that change would be hard to implement in the interim, given that employer contribution rates were set at the 2010 valuation.

6. WHAT ARE THE KEY PROPOSALS FOR CONTRIBUTIONS AND THE NEW SCHEME?

- 'Options worked on the basis of a career average scheme' (Principle 2 – P2)
- Zero contribution increases 'for all or the vast majority of members' (P2)
- Some element of choice (e.g. on contribution rates or benefit levels) to recruit new members and retain existing ones (P3)
- Flexible retirement between 55 and 75 (P5)
- Normal Pension Age to be linked to 65 or State Pension Age, whichever is later **(NB NPA is already 65 in LGPS)** (P5)
- Continuation of current Admitted Body Status arrangements (P6)

- Savings to be achieved through better procurement of financial and investment management services and improved administration (P8)

- The LGPS should retain its value relative to other public sector schemes (P9)

- 'Robust and independent' equality impact assessment at key stages to ensure compliance with equality legislation 'in both effect and intent' (P10)

7. WHAT ARE THE KEY PROPOSALS ON MANAGEMENT AND GOVERNANCE MECHANISMS?

- Overall value of the scheme and the employer cap within it to be set 'by agreement between the principal stakeholders of the scheme'. (NB This represents a clear desire to move away from change by central Government regulation to a negotiated approach) (Principle 11 – P11)

- Employer contributions to have a 'cap and collar' – ceiling and floor - to prevent employers reducing their contributions below a necessary level, as well as setting an upper limit (P12)

- Management, governance and scheme regulation in future to be 'under the control of principal stakeholders of the scheme and use model fund data' (NB Principal stakeholders are the unions, the LGA – and possibly including DCLG). This means data acquired through LGPS valuations, not Treasury assumptions (P13)

- The stakeholders will jointly agree any future changes, but there will be a neutral 'default position' (option for third party conciliation/arbitration) in the event of failure to agree (P14)

- A transparent mechanism for any variation from the standard employer rate to be agreed (P15)

- 'Cap and collar' levels to 'be constrained within an acceptable range' (P16)

- 'Cap and collar' to be agreed as part of the new scheme – i.e. not subject to later Government regulation (P17)

8. THE PROCESS AND TIMETABLE FOR NEGOTIATION, REGULATION AND VALUATION

- The tight timetable/milestones outlined are key to the Government's agreement to the 'single step' approach and the 2014 implementation date

- 4 key stages (Page 4) – Stage 1 has been (almost) completed, Stage 2 is the key one and contains ‘big ticket’ items – January to April 2012

- The timetable includes space for informal/internal consultation by unions and employers and a joint communication programme – April to September 2012

- Also ‘robust and independent’ equality impact assessment at all key stages

- The outcome would then be subject to statutory consultation, starting September (could be October 2012), followed by draft Regulations in laid in Parliament in early 2013

- Negotiations on remainder of scheme design, cost mechanism and governance (Stages 3 and 4) – April to November 2012

- Possible further consultation and regulation on Stages 3 and 4 above

- In order to meet the timetable, the ‘Actions’ on page 5 require Government, the Government Actuaries Department (GAD) and the Association of Consulting Actuaries to deliver on time!