Minutes of the Pensions Panel (Part I)
27 April 2011

Present: Mr. Michael Brown (Chairman), Mr. Mick Hodgson, Mr. Andrew Smith, Mr. Steve Waight (as noted), Mr. Clem Stevens (as noted), Mr. Gordon Marples, Mr. Alan Price and Mrs. Chris Earwaker.

In attendance: Caroline Burton, Richard Hornby, Rachel Wood, Lucy Ducker, Steve Harrison and Bryan Chalmers (as noted).

Apologies: Mr. Robert Dunn and Mr. James Doyle

Declaration of interests

881. Members and officers were invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda and are reminded to make any declarations at any stage during the meeting if it becomes apparent that this may be required when a particular item or issue is considered.

882. It is recorded in the register of interests that Mr. Stevens' nephew, Peter Hadden, is a partner in Baillie Gifford, Mr. Hodgson is a Governor for Collyers Sixth Form College, Mr Brown's son is employed by Deloitte, Mr. Smith is a deferred pensioner of Mercer and Mr. Hornby is a Co-Opted Governor for the University of Chichester.

Hutton Review of Public Sector Pensions & Fair Deal Consultation

883. The Executive Director introduced his paper which was split into two parts: Lord Hutton's Review of Public Sector Pensions and the Fair Deal Consultation, launched by HM Treasury.

884. Lord Hutton's conclusions were not as radical as they could have been. Whilst the proposed move to a Career Average Revalued Earnings (CARE) scheme is intended to be fairer, rather than produce large cost savings, the change to the normal retirement age and the introduction of the cost ceiling should improve the affordability to the LGPS.

885. The Hutton report sets out broad principles about the future of public sector pensions and lacks detail on accrual rates, ancillary benefits and how policies such as added years will be impacted. Importantly the actuary confirmed that Career Average Revalued Earnings by definition need not be cheaper than the current final salary arrangements. Although Hutton has recommended that accrued benefits increase in line with average earnings, the inflation link and accrual rate will be subject to consultation and will ultimately be a Government decision. On the basis of Hutton's recommended inflation link, an employee with a flat salary

progression could see their benefits being revalued at a greater rate than their actual salary increases. Conversely, a final salary scheme would benefit those who get above average salary increases, particularly towards the end of their career. Lord Hutton's report suggests that the primary purpose of public service pensions is to provide an adequate income in retirement rather than as a recruitment and retention tool and suggests that those who work in public service for their entire career should get a total pension (including State Pension) in the region of 2/3rds of pre-retirement income. His recommendation to use earnings revaluation will do more to secure adequacy for those with lower pay growth than an inflation-linked alternative.

Steve Waight and Clem Stevens joined the meeting.

886. The report highlights the employee contribution increases proposed by Central Government. Concern has been raised (nationally) about the impact of the changes on opt out rates. Following a recommendation in Lord Hutton's interim report, the Comprehensive Spending Review (October 2010) announced a progressive increase to member contributions on the unfunded public service schemes in order to reduce the amount the Government needs to find from general taxation revenues to cover any shortfall when paying pension benefits. However this has also been applied to the LGPS, which is a funded scheme, and pays pensions out of the fund. The Government will only be able to benefit from this increase if it reduces the amount allocated to Councils in proportion to the increase in employee contributions.

887. Although it is proposed that the increase is going to be phased in and the low paid should be protected, there is concern that the higher proportion of lower paid workers in the LGPS (compared to other public sector schemes) makes this a challenging policy, particularly against the background of pay freezes. If, as it is predicted, the middle and higher earners opt out of the Scheme, it would be more difficult to achieve the required income yield and undermine the scheme as a tool for recruitment and retention. There was consensus that if the benefits offered by the LGPS were compared to the market, even at the higher contribution rates the scheme still represented good value for employees. Therefore there was concern that opt outs may be due to ignorance of the benefits of membership and the Panel considered the need to publicise the benefits of the LGPS to members, although any publicity must fall short of being construed as financial advice. It was also noted that for some members, a small pension could have a negative impact on means tested State benefits, and therefore it is important to appreciate these nuances. Hymans Robertson are providing some modelling work to the Society of County Treasurers on the impact of opt out rates, as well as producing some generic briefing notes for employers/employees.

888. The Fair Deal consultation stems from Lord Hutton's interim report, in which he suggested that the Fair Deal is a barrier to non-public service providers, potentially reducing the efficiencies and innovation in public service delivery that could be achieved. The report set out the broad principles that will be covered in the Council's response with the final version to be sent by the Chairman in his role as Chairman of the Pensions Panel and Cabinet Member for Finance and Resources.

889. The Fair Deal consultation had been discussed by Governance Committee at their meeting on 18 April. Whilst the Committee had welcomed Hutton's view that accrued pension rights and future pension provision could create a barrier to Contractors bidding for Council business, there was significant concern at both Governance Committee and Cabinet (where the issue was discussed on about the minimum employer contribution rate of 3% required by private sector employers. The feedback from both meetings was that Members would not feel happy if employees faced a nose dive in pension provision following an outsourcing. Therefore it was proposed that the Council's response should set out that although the Fair Deal should be abolished there should be a requirement (locally if not nationally) for 'adequate' pension provision to be made available. It was acknowledged that even with the suggested protection of minimum employer contribution payments this would not provide employees protection in the event that a company went bankrupt.

890. Away from the Fair Deal consultation, Lord Hutton's report also recommends that future non-public service workers should not have access to public service pension schemes. The rationale for this is to reduce the risk to Government (and hence taxpayers) of underwriting pension benefits accruing to staff employed outside of the public sector. The report notes that this risk could be greater in future given the Government is keen to encourage greater plurality of provision of public services. This provision would also apply to employees transferred to a contractor following an outsourcing of Council services.

891. It was agreed that draft response will be circulated to the Pensions Panel and Governance Committee before the final response is sent on 15 June.

Part II Matters

892. The Chairman asked members to indicate at this stage if they wished the meeting to consider bringing forward into Part 1 the items on Part II of the agenda.

893. Resolved – That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of

Schedule 12A of the Act (paragraph 3: financial or business affairs of any particular person (including the authority holding the information)) and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

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Chairman Date