



Sir Merrick Cockell
Local Government Group
Local Government House
Smith Square
London SW1P 3HZ

The Rt Hon Eric Pickles MP
Secretary of State for Communities and Local Government

Department for Communities and Local Government
Eland House
Bressenden Place
London SW1E 5DU

Tel: 0303 444 3450
Fax: 0303 444 3289
E-Mail: eric.pickles@communities.gsi.gov.uk

www.communities.gov.uk

Dear Merrick

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LOCAL GOVERNMENT PENSION SCHEME IN ENGLAND AND WALES

The Chief Secretary to the Treasury announced on 19 July in a Parliamentary Written Statement that to progress the recommendations in Lord Hutton's report on public service pension scheme reforms, initial discussions should begin on a scheme by scheme level and, to achieve the savings target set out in the Spending Review, indicated that consultations would shortly commence on individual Scheme proposals for increases in employee contributions from April 2012. Proposals to consult on new tariffs for the Firefighters' Pension Schemes will emerge next month as part of that central process for the pay-as-you-go schemes. I enclose a copy of the Ministerial Written Statement, for information.

The Statement also made clear, in terms of the Local Government Pension Scheme in England and Wales, that the Government has concluded that the funded status of the Scheme places it in a different position to the pay-as-you-go schemes - a view expressed previously by the Local Government Group. On that basis, and within the context of the Government's wish to see savings to Local Government Pension Scheme employers of some £900million by 2014/15, I am inviting the Local Government Group to conduct discussions with the local government trade unions to establish a package of measures to secure the short term savings by 2014/15, equivalent to the 3.2 percentage point contribution increases in other schemes. This can include alternative ways to deliver some or all of the savings, provide protections from contribution increases for the low paid, together with a consideration of other issues important to the longer term sustainability of the Scheme.

To meet the necessary statutory-based timetable, I would welcome receiving the outcome of your joint discussions no later than 9 September. This will allow the necessary statutory consultation exercise to begin with Scheme interests, for twelve weeks, by the end of September. Following a careful consideration of all the responses, the final, formal stages of the amendment process can be finalised to ensure the new tariff, and any other measures, to be in place for 1 April 2012.

My officials are available at any time to assist in your discussions, if that would be helpful to the Group.

*Yours ever
Eric*

THE RT HON ERIC PICKLES MP

Written Ministerial Statement

Public Service Pensions Update

The Chief Secretary to the Treasury (Rt Hon Danny Alexander): The Coalition programme gave a commitment to review the long-term affordability and sustainability of public service pensions, and Lord Hutton's Independent Public Service Pensions Commission has demonstrated that reform is needed. At Budget, the Government made clear that it accepted Lord Hutton's recommendations as a basis for consultation with public sector workers, trades unions and others and that we would set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer.

The Government has already committed to retaining a form of defined benefit pension in the public sector and protecting accrued rights so that all the benefits that members have earned up to the point of change will be protected. Today, I would like to inform the House of the progress that has been made and the process going forwards.

The Government and the Trades Unions Congress (TUC) have held a series of constructive meetings to discuss public service pension reform which have covered Lord Hutton's key recommendations and the Government's proposed employee contributions increase. A basis for agreement has been established in several areas, but differences remain on some of the key recommendations.

The Government and the TUC have agreed that to further inform the discussions on Lord Hutton's recommendations, there should be scheme level discussions alongside the central process already established. Scheme level discussions will ensure a fuller understanding of the implications of reforms, before final conclusions are reached. These scheme level discussions will deliver initial proposals for reformed schemes by the end of October this year, allowing further work to finalise detailed scheme design before the Government introduces legislation in due course.

Lord Hutton's recommendations will inform these scheme level discussions and the Government will provide scheme-specific cost ceilings. These ceilings will be based on Lord Hutton's proposals, but will go further and ensure that the pension individuals receive at normal pension age would be broadly as generous for low and middle income earners as it is now. These cost ceilings will ensure that public service pensions remain affordable and sustainable, by setting a limit on the contribution made by the Government and ultimately the taxpayer.

Further to the rationale for short term savings set out in Lord Hutton's interim report, the Government announced plans to target £2.8bn savings per year by 2014-15 through public service employee pension contributions at Spending Review 2010. The scheme-by-scheme consultations for the unfunded public service pension schemes to deliver the first years' savings of £1.2bn will commence by the end of this month. Reflecting the Government's commitment to protect the low paid, the Government's has set out its preferred parameters for any design. There should be no increase in employee contributions for those earning less than £15,000 and no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis. It is proposed that higher earners will pay more but the Government has proposed a cap on the maximum increase of 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis. These consultations will be completed by the end of October, in order to ensure implementation by April 2012.

The Government remains committed to securing the full Spending Review savings of £2.3bn in 2013-14 and £2.8bn in 2014-15, requiring each scheme to find savings equivalent to a 3.2 percentage point increase. Scheme specific discussions will make proposals on how these savings are achieved and will be required to make proposals by the end of October this year. For Local Government, the Government recognises that the funded nature of the scheme puts it in a different position and will discuss whether there are alternative ways to deliver some or all of the savings.

I have today exchanged letters on these issues with the General Secretary of the Trades Unions Congress and copies of these letters have been deposited in the Libraries of both Houses.

HM Treasury
19 July 2011