



Office of the  
Deputy Prime Minister

Creating sustainable communities

Local Government Association  
Employers Organisation  
Association of Consulting Actuaries  
TUC Pension Co-ordinator - UNISON  
Chartered Institute of Public Finance and Accountancy  
Society of County Treasurers  
Association of District Treasurers  
Society of Welsh Treasurers  
Society of Metropolitan Treasurers  
Society of London Treasurers  
Society of Chief Personnel Officers

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## **LOCAL GOVERNMENT PENSION SCHEME**

This letter seeks to address several issues which, collectively, affect the context within which ODPM is presently implementing a programme of modernising changes to the LGPS.

### **Background**

ODPM Ministers are on record regarding their intentions to ensure that the LGPS continues to meet the needs of all of its stakeholders. Their policy approach to the LGPS – a strategy based on its affordable retention - accords with the Government's overall wish to see the continuation of defined benefit pension schemes being available to public service employees. At the same time, the guarantees that surround such arrangements, underpinned as they are by taxpayers, require them to be kept under review, to reflect best practice and to be cost-effective both in terms of their provision and delivery.

### **Funding Strategy Statements (FSS's)**

The requirements now in the LGPS Regulations that administering authorities in England and Wales must produce a FSS was announced in the Office's letter of 11 March, covering amending regulations which came into force on 1 April 2004. References in that letter highlighted the important future role to be played by FSS's in the Scheme, particularly in connection with the Strategy and programme of regulatory amendments announced by Ministers in July 2003, and the requirement that actuaries, engaged in completion of the 2004 valuation, should take such statements into account when setting future employer contribution rates.

Equally as significant is the need for LGPS authorities to maintain the interaction between Scheme solvency, the FSS, and each fund's Statement of Investment Principles. This relationship is an important factor in how each administering authority, with its advisers, opts to meet the likely increases in employers' costs for the next triennium, 2005/06 – 2007/08, and beyond. The potential impact that increases in employers' costs may have on local authority resources, and any subsequent effect on authorities' council tax bills, is something which all LGPS interests, including elected members at all levels, will need to assess carefully as the closing stages of the 2004 actuarial valuation exercise are taken into account in the timescale of the 2005/06 budget setting processes in particular.

ODPM Ministers recognise the opportunity available to LGPS administering authorities in England and Wales to maximise local authorities' constitutional status when dealing with pension liabilities in the forthcoming and subsequent valuation periods. This is fully recognised also in the guidance prepared by CIPFA and which is itself referred to in the 2004 regulatory amendment (regulation 76A) to the principal regulations.

Within the extant regulatory framework, administering and employing authorities already have the necessary means, therefore, to minimise the impact of employers' cost increase from April 2005 by:-

- prudentially maximising recovery periods;
- phasing the level of actuarially set employers' contribution increases over the forthcoming and subsequent valuation periods, on a year by year basis, if necessary;
- adopting realistic and appropriate assumptions for future inflation, pay increases and other actuarially sensitive variables which can favourably (or adversely) influence the outcome of the valuation; and
- prioritising the need for expensive early retirements.

Against that background, Ministers wish to ensure that in the carrying out and developing the subsequent outcomes of the 2004 valuation everything is done to maintain the ongoing affordability of the Scheme. Further advice will follow in due course, but, for the present, LGPS administering authorities particularly, and their advisers, are asked to note the current and continuing necessity of minimising any significant increases on employers' costs which could in turn lead to adverse effects on local authority council tax demands from April 2005.

It would be useful to know about what general progress is currently being made by administering authorities in the preparation of their funding strategy statements, and how key stakeholders – particularly other local authority employers – are being involved in the new processes. An early indication also of what recovery periods and stepping arrangements could be usefully included to inform the ongoing assessment of the management of cost implications. Copies of the statements, as they are finalised, could be sent to Bob Holloway either by e-mail to [robert.holloway@odpm.gov.uk](mailto:robert.holloway@odpm.gov.uk), or by post to Zone 2/F6, Ashdown House, 123 Victoria Street, London, SW1E 6DE.

### **Press Issues**

Recent press reports have continued to demonstrate the sensitivity of UK public service pension scheme provision, notwithstanding the considerable policy and legislative efforts that are underway to ensure affordability, cost stability and sustainability. In the context of the LGPS, press reports on anticipated adverse results as an outcome of the 2004 valuation, now currently underway, only serve to raise spurious and unnecessary questions about the Scheme's future, which in turn provokes alarm within the membership.

To manage these unfortunate incidents LGPS stakeholders, either collectively or bi-laterally, may be in a position to agree a response to counter such press articles. Some interests have already produced helpful and positively reassuring statements and placed

well prepared reference material on their websites. ODPM's website has been amended recently and will be kept up to date as developments unfold.

## **Responses to the 31 March consultation exercise on proposed changes to the LGPS**

An initial assessment of responses to our 31 March statutory consultation exercise on draft amendments to the Local Government Pension Scheme Regulations 1997, programmed for implementation with effect 1 April 2005, suggests that a small but significant number of current LGPS members have been either under-informed, or inappropriately advised about ODPM's intentions regarding the affordability and sustainability of the Scheme.

It is of concern if members, in certain parts of the Scheme's framework, are not being comprehensively briefed on what the changes are designed to achieve, why and how they, as contributors, could be affected, how the proposed statutory protections will apply and of the consequences if the amendments proposed do not materialise. At the same time, it follows that those who are not affected should be totally re-assured. This is a prime task for providers and employers in the current pension climate, as well as other influential interests. All LGPS stakeholders have a collective responsibility to re-affirm the Scheme's qualities and to do all that is possible ensure its retention.

It is explicitly acknowledged in the Office's letter of 31 March 2004 that statutory transitional protections are proposed to ensure that existing Scheme members who are close to retirement will not be adversely affected by the change in regulation. Unfortunately, in many of the responses received to the statutory consultation unnecessary concern has been generated in the minds of LGPS members. The attached summaries of our comprehensive website Q&A advice at [www.xoq83.dial.pipex.com](http://www.xoq83.dial.pipex.com) could help to explain the position more adequately for the benefit of Scheme members and all stakeholders.

### **Liaison**

ODPM intends to maintain its already well-established close liaison with key stakeholders. Regular stakeholder discussions are underway and levels of mutual understanding of the complex issues surrounding the LGPS and its future are high. Going forward, this needs to be maintained on both a collective and bi-lateral basis and indeed to be extended, if Ministers agree. ODPM is grateful for the considerable commitment and continuing assistance being given by stakeholders at all levels at this challenging time.

**T B J CROSSLEY**