

<b>Essex Pension Fund Board</b>	<b>EPB/21/10</b>
<b>Date: 15 December 2010</b>	

**Lord Hutton Review of Public Sector Pensions – Update**

Report by Director of Finance, Pension Services Manager and Head of Investments

Enquiries to Margaret Lee on 01245 431700

**1. Purpose of the Report**

- 1.1 To update the Board on the progress of Lord Hutton's review of public service pensions schemes and consider the role of the Board in further related consultations.

**2. Recommendations**

- 2.1 To note the progress that has been made to date.
- 2.2 To agree the involvement of PFB members in this review, including how they can feed into further consultation responses.

### **3. Background**

- 3.1 Earlier this year, the Chancellor invited Lord John Hutton of Furness to chair the Independent Public Service Pension Commission which would be responsible for undertaking an independent review of public service pensions.
- 3.2 The review consists of an interim report, issued in October 2010, and a final report early in 2011 which will feed into the March 2011 budget.
- 3.3 The terms of reference for the Commission are attached as Annex A.

### **4. Progress to date**

- 4.1 The review commenced in June 2010 with an initial call for evidence and views to be taken into consideration for his initial report to be published in October 2010.
- 4.2 A copy of the contents, foreword and executive summary from the initial report is attached as Annex B. The full report can be found at [http://www.hm-treasury.gov.uk/d/hutton\\_pensionsinterim\\_071010.pdf](http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf). The key outcomes are:
  - A recommendation that public service pension scheme members should pay more employee contributions. This has since been accepted by the government and a 3% increase in income is expected to be introduced from April 2012, albeit lower paid employees will be protected. Details of how this will be implemented within the LGPS are expected later in 2011.
  - Final salary pension schemes are not considered to be appropriate any longer.
  - Accrued rights will be protected although accrued rights have yet to be defined.
  - Public sector pension schemes should not be levelled down to the cheapest solution, as has been the case in much of the private sector.
- 4.3 Within the same report, the Commission identified a set of principles against which long-term options for reform should be judged, and accordingly which will be key in formulating the Commission's final report. These are:
  - affordability and sustainability.
  - adequacy and fairness.
  - supporting productivity .
  - transparency and simplicity.
- 4.4 A call for evidence was made on 1 December 2010 after the initial report looking for answers to 25 questions covering a range of areas (risk sharing, adequacy, employee understanding and choice, pensions and plurality of provision of public services administration costs and transition issues). Responses are requested by 17 December 2010. A copy of the call for evidence is attached as Annex C.

## **5. Next steps**

- 5.1 Officers are currently formulating a response to the call for evidence. Under current delegated powers, this will be signed off by the Director of Finance. Given the short time available to submit the response and the complexity of the subject matter, full training of the Board on these matters and opportunity for the Board to feed into the consultation response is not possible. However, Board members who wish their views to be considered as part of the development of the consultation response should pass on those views to the Director of Finance.
- 5.2 Once the final report is issued, the Government is expected to incorporate potential changes to public service pension schemes as part of the March 2011 budget. Clearly any change could take a number of years to implement and it is expected that there will be a number of further consultations on how these changes will be incorporated into the LGPS (or any alternative scheme that is proposed).
- 5.3 Views are invited from the Board with regards to the level of input they would wish to have into these changes. It is quite likely that the changes could be the most significant in the last 50 years. Consequently the options for the future are wide ranging and complex to understand. Questions to be considered include:
- Should a small sub-group of the Board be created to debate and feed into consultations relating to this reform?
  - Should all consultations relating to this reform continue to be delegated to the Director of Finance, who can take into consideration views from any sub-group?
- 5.4 Officers will ensure any Board members and officers involved in formulating responses on behalf of the Fund are provided with the appropriate knowledge and skills to assist them in doing so, in particular utilising the Fund Actuary and other relevant advisers for this purpose.
- 5.5 The Board should note that Essex County Council, in its role as an employer, may submit separate responses to this and any further consultations.

## **6. Link to Essex Pension Fund Objectives**

- 6.1 The following EPF objectives are relevant to this report:
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
  - Evolve and look for new opportunities that may be beneficial for our stakeholders, ensuring efficiency at all times
  - Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
  - Provide a high quality 'gold standard' service whilst maintaining value for money

## **7. Risk Implications**

- 7.1 There are a number of potential risks including radical change to the EPF (which could have many implications such as financial and resource). That being said, due to the number of responses that would be expected as part of this consultation, EPF would just have a small voice as part of the consultation.

## **8. Communication Implications**

- 8.1 As the review progresses, it will be necessary to keep scheme members and employers up to date with developments.

## **9. Finance and Resources Implications**

- 9.1 It is expected that this review will have major resource implications on officers both in the forthcoming months (responding to consultations, communicating to members, etc) and into future years (implementing change). Officers will continue to monitor the situation.
- 9.2 There will also be an increase in costs. Initially this is expected to be as a result of greater use of advisers (particularly the fund actuary). In future years this might be expected to be as a result of major system and process changes as well as updating all communications.

## **10. Background Papers**

- 10.1 Further information can be found at:  
[http://www.hm-treasury.gov.uk/indreview\\_johnhutton\\_pensions.htm](http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm)

## **Annex A**

### **Independent Public Service Pensions Commission: terms of reference**

To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.

In reaching its recommendations, the Commission is to have regard to:

- the growing disparity between public service and private sector pension provision, in the context of the overall reward package – including the impact on labour market mobility between public and private sectors and pensions as a barrier to greater plurality of provision of public services;
- the needs of public service employers in terms of recruitment and retention;
- the need to ensure that future provision is fair across the workforce;
- how risk should be shared between the taxpayer and employee;
- which organisations should have access to public service schemes;
- implementation and transitional arrangements for any recommendations; and
- wider Government policy to encourage adequate saving for retirement and longer working lives.

As part of the review, the Commission is invited to produce an interim report by the end of September 2010. This should consider the case for delivering savings on public service pensions within the spending review period – consistent with the Government's commitment to protect those on low incomes - to contribute towards the reduction of the structural deficit.

The commission is invited to produce the final report in time for Budget 2011.

#### *Scheme coverage*

- For civil servants:
  - Principal Civil Service Pension Scheme
  - Principal Civil Service Pension Scheme (Northern Ireland)
- Armed Forces Pension Scheme
- For NHS employees:
  - NHS Pension Scheme
  - NHS Superannuation Scheme (Scotland)
  - Health and Personal Social Services Northern Ireland Superannuation Scheme
- For teachers:

- Teachers' Pension Scheme (England and Wales)
- Scottish Teachers' Superannuation Scheme
- Northern Ireland Teachers' Superannuation Scheme
- For Local Government:
  - Local Government Pension Scheme (England and Wales)
  - Local Government Pension Scheme (Scotland)
  - Northern Ireland Local Government Pension Scheme
- Police Pension Scheme (administered locally)
- Firefighters' Pension Scheme (administered locally)
- United Kingdom Atomic Energy Authority Pension Schemes
- Judicial Pensions Scheme
- Department for international Development – Overseas Superannuation Scheme
- Research Councils' Pension Schemes

In addition to the schemes mentioned above, there are a number of smaller schemes and many established to cover only one senior appointment which do not specifically need to form part of the review but which will be required to act on the recommendations.