

Pensions Briefing – 14 October 2011

Purpose

The purpose of this briefing is to provide Councils with up to date information around public sector pensions, in particular the Scottish Government's position in relation to the UK Government's proposed increase in employee pension contribution rates, and the potential for industrial action around pensions.

Background

The interest around public sector pensions is largely being driven by the recent review of public sector pensions which was conducted by Lord Hutton and published in March. It is still unclear both at a UK level and indeed within Scotland, how or whether any of the recommendations proposed by Lord Hutton around any future longer term reform of the public sector pension schemes will be taken forward.

The UK government has proposed in the immediate short term to increase employee pension contribution rates by around 3.2% of salary, and for this to be phased in over a 3 year period from 2012. This is expected to raise around £2.8bn across the UK by April 2015.

In addition to the immediate short term proposal to increase employee pension contribution rates, and the potential for longer term reform of the public sector pension schemes, the UK Government announced as part of its emergency budget in June 2010 a change to the indexation of public sector pensions from RPI to CPI, and this has led to a reduction in the value of public sector pensions received by pensioners from April 2011.

UK Discussions

There has been significant media interest around these discussions, with particular focus on respectively the high level discussions and individual scheme discussions as to how any proposed increase in employee pension contribution rates should be reflected across the respective public sector pension schemes. Consultations have now issued by the respective Government departments in England as to how the proposed increase for 2012/13 only will be applied across the public sector pension schemes in England and Wales

The timetable for future scheme reform has been set by the UK Government with the expectation that reforms will be in place by April 2015.

It is expected that the UK Treasury will announce cost parameters around any future reforms in the next few weeks, and it is anticipated that high level proposals which will set these parameters for scheme reform in England will be announced by the end of October. These will be followed by a series of individual scheme discussions on future reform.

COSLA Position

In May 2011, COSLA Leaders agreed to not to support the UK Government's proposed increase in employee pension contribution rates across any of public sector pension schemes affecting the Scottish Local Government workforce (LGPS, Teachers, Police and Fire). This position has been clearly expressed both through high level stakeholder discussions, which

included the Scottish Government and Trade Unions with membership in the affected schemes and also as part of the political dialogue around the Spending Review discussions.

Scottish Government

Legislative Discretion in Scotland

Whilst pension's legislation is a reserved matter for the UK Government, the public sector pension scheme regulations are devolved to Scotland, and as such all of the public sector schemes affecting the Scottish public workforce are governed by separate Scottish legislation, with the exception of the civil service scheme. Given this, the Scottish Government does have varying degrees of discretion to change the public sector pension schemes in Scotland particularly around scheme design and pension contribution rates; however some schemes (NHS and Teachers) require Treasury approval to make any changes to legislation. The LGPS provides Scottish Ministers with the greatest degree of flexibility to make changes in line with Scottish requirements.

Scottish Government announcement on proposed increase in employee pension contribution rates

The Scottish Government has now announced how it intends to address the UK Government's proposed increase in employee pension contribution rates as part of the recent Scottish Spending Review announcement on 21 September.

The Scottish Government has made it clear within the announcement that they do not support the UK Government's proposal to increase employee pension contribution rates in the short term. However, the UK Government has made it clear that should these increases not be applied in Scotland, then the Scottish Government's Budget will be reduced by around £8.4m per month. Given the financial impact on the Scottish Budget, the Scottish Government has announced that should the UK Government not change its course of action on this proposal, then they will have no other option but to apply the increases in employee contributions across the NHS, Teachers, Police and Fire pension schemes in Scotland.

Given this, a 6 week consultation has now been issued by the Scottish Government in each of these respective schemes as to it intends to implement the proposed increase across these schemes in 2012/13 only. The closing date for responses is 17 November.

The Scottish Government has also indicated that in relation to the LGPS, they will 'leave the decision for those who manage that scheme'. Given this, and given COSLA's agreed political position, we are not expecting any change to the contribution rates for members within the LGPS.

Whilst the timetable for future scheme reform has been set out by Westminster, there has as yet been no discussion as to whether there will be reform of the public sector pension schemes in Scotland, and indeed whether a similar timetable for April 2015 will be followed in Scotland.

COSLA will be issuing a response to the consultation proposals in relation to Teachers, Police and Fire. It is hoped for these responses to be considered politically by COSLA Leaders on 18 November, and officers will work closely with the respective professional associations including SOLACE, ADES, SPDS, CFOAS and ACPOS in shaping this response.

Industrial Action

Given the course, to date, of discussions at a UK level, the public sector trade unions have announced a planned day of industrial action across the UK on 30th November in response to proposed changes to public sector pension schemes.

Principally they appear to be taking industrial action on:

- The proposed increase in employee pension contribution rates;
- Any future reform of public sector pension schemes as per the recommendations included within the Hutton report;
- The changes in indexation of the public sector pension schemes from RPI to CPI

The decision to apply contribution increases from April 2012 which has now been taken in Scotland on the unfunded pension schemes including Teachers, Police and Fire has resulted in the Trade Unions with members in these schemes, currently balloting for industrial action with the intention to act in conjunction with the wider UK action on 30 November.

In addition the main Trade Unions within the LGPS (Unison, GMB and Unite) have also indicated they are balloting members for industrial action on both the potential for wider pension reform, and changes to indexation, again to participate in the UK wide action set to take place on 30 November.

As councils would expect there is a continuing dialogue with recognised trades unions with membership in all pension schemes with a view to understanding the range, types and levels of industrial action which might affect council services on 30th November.

Any information relating to proposed industrial action will be advised to councils as soon as possible. Also any outcomes from discussions at Scottish level relating to parameters for local discussions on emergency and life and limb cover will be made known to councils immediately.