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Room for Manoeuvre?

Ensuring a fair and sustainable future for local government pensions

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Summary

"There is a growing body of opinion that, over time, the unfunded liabilities of the LGPS will have to be picked up by the taxpayer, unless the fund is closed. That is a nonsense. The LGPS will always be sustainable if contributions into the fund are increased or pensionable retirement ages are increased."[1]
Anthony Mayer, Chair of the LPFA

'Austerity' is the word of the moment in Government finance, with significant spending reductions on the horizon. Impending fiscal consolidation has thrown public sector pensions into the spotlight, with many calling for reform. In this report we argue that reform of the Local Government Pension Scheme (LGPS) must be considered separately from other, unfunded public sector pensions. The opportunities that exist to use the flexibility afforded by the scheme to protect front-line services are also outlined, with councils urged to consider these in collaboration with their communities.

Over the current Parliament councils will be presented with a huge array of competing priorities and it is likely that vital areas of service provision will no longer have sufficient funding. The consequences for individuals and communities in need of these services could be severe. At the same time, the costs to councils of over-hauling historic deficits in its pension funds will increase, placing further strain on service provision.

This report aims to highlight that the regulatory flexibility inherent in the LGPS offers councils an important choice. The flexibility of the scheme could allow authorities to divert a proportion of their pension contributions towards revenue service provision. However, doing so would be at the expense of inter-generational equity, presenting the quandary: front-line services today or greater fairness for tomorrow's tax-payer?

More broadly, far-reaching reform of public sector pensions is well within the Government's sights and is certain to be seen as a source of savings. The Hutton Inquiry has a short time-scale to decide on potentially huge changes. There is a real danger that there will not be sufficient time to

1 Anthony Mayer, speaking at *An Affordable and Sustainable LGPS* Symposium (LPFA, 24 Feb 2010)

provide responses that reflect the large variations in types of pension scheme provided across the public sector.

This report seeks to capture this critical moment in the reformation of local government pensions, and to direct the debate towards a greater degree of financial and managerial flexibility for fund administrators and councils, while safeguarding the rights of scheme members and the taxpayers who ultimately fund their pensions.

Protecting front-line services through reduced deficit recovery contributions

The LGPS is the largest UK public pension scheme. Its membership comprises the full-range of local government jobs; a high proportion of members work in part-time or low-paid jobs; and two-thirds of them are women. Teaching assistants, care workers and dinner ladies represent a core proportion of the scheme's membership.[2]

Unlike most British public sector workers' pension programmes, which are unfunded, the LGPS maintains a £100bn fund to supply its members' pensions.[3] However, while the LGPS has been generally well-managed over the past decade, and has experienced positive cash flows and increases in funding level, it still possesses significant funding deficits, estimated at £20 billion at the last valuation in 2007,[4] due in part to a central Government-mandated 'contributions holiday' by councils in the 1980s.

Current service costs are fully funded through contributions made by employees and employers, but it is the increase in costs associated with past service that has generated a deficit that councils have been working to fill through 'deficit recovery' contributions. In 2008-09 the cost to councils of these deficit reduction contributions was £1.51bn. We predict that by 2014-15 they will have increased to £2.06bn, meaning that councils will be spending £564m a year more than they are today to close the deficit. This would represent a 2.2 *per cent* increase in council tax from current levels.

2 New Policy Institute, *Reduced Pension Rights in the LGPS: Who is affected and how much does it cost Government?* (Feb 2006)

3 CLG, *Local Government Pension Scheme Funds England 2008-09* Statistical Release (12 Oct 2009)

4 CIPFA, *The Local Government Pension Scheme (LGPS) in England and Wales: Results of the 2007* valuation (2007)

Though council tax is not the only source of income for local authorities, it is the principal method of raising revenue for local authorities when there are reductions in centrally allocated budgets.

This increase will come at a time of unprecedented spending cuts from central Government, and rising service demands in several areas, notably adult social care and waste management. A recent NLGN report predicted that local authorities will face a 16.5 *per cent* cut in income by 2014-15, amounting to £12.1 billion of savings to be made.[5] Councils will be stretched to their limits by these cuts, and will need to seek radical service redesign and innovative thinking in order to provide a sufficient level of services for their residents.

While it is important for the LGPS to reach full-funding in the long-term, the speed at which it does so is open to flexibility. The time-scale is currently set as if local government were a private company – such that should the company become insolvent there must be a fully-funded pension in place. However, the ultimate underwriter of LGPS liabilities, the government, cannot become insolvent, and we would argue that this gives councils a greater deal of flexibility in dealing with their deficits in a way that also has benefits for daily service provision.

The aim of the LGPS is eventually to reach full (100 *per cent*) funding. However, the constitutional permanence of local government means this process does not need to be rushed in either 10 or even 20 years, especially when their funds' cash flows have been positive for the past decade, and are likely to continue to be so for at least the next 15 years.[6] While the deficits in LGPS funds must be closed eventually, councils should be free to take a long-term approach to this problem.

Therefore by using this flexibility to set a longer-term funding target local authorities would have an additional means of mitigating the effects of impending fiscal consolidation. It would enable them to divert a proportion of their deficit recovery contributions towards revenue service provision in the short term. If councils cut their secondary contributions by only 10 *per*

5 Nick Hope, James Kirkland, and Dr. David Chapman, *Scanning Financial Horizons: Modelling the local consequences of fiscal consolidation* (NLGN, 2010)

6 Source: Annual Local Government Pension Scheme Form (SF3) returns, completed by all 81 English LGPS Administering Authorities.

cent in 2014-15, they would free up over £200 million for the provision of otherwise threatened services. Diverting 10 *per cent* of deficit recovery contributions towards services is equivalent to:

- All the money councils spent in 2008-09 on keeping roads safe and pothole-free during the winter
- Almost twice the total expenditure on children's social care strategy in the same year.[7]

Because of the impact this would have on future contributions by councils this is a decision that must be taken in conjunction with council tax payers. Through consultation it is possible to decide whether it is more important to protect front-line services today, or whether the need for inter-generational equity is the more pressing requirement.

The future of the Local Government Pension Scheme

The June 2010 Budget announced that former Work and Pensions Secretary John Hutton will chair 'a fundamental, structural review of public service pension provision' (including the LGPS).[8] This Public Service Pensions Commission will release an interim report before the Comprehensive Spending Review of 20 October 2010, and a final report before the 2011 Budget.

The LGPS is not like the other, unfunded public sector pension schemes; it is funded, pays lower pensions on average, has a higher retirement age than most, and a history of conscientious management by council financial directors to work towards full funding.

Nor is it wholly like a private sector scheme, though it displays some of the characteristics of one. Private sector pension funds must be fully funded to protect their members' pensions in the event of the parent company becoming insolvent. The constitutional permanence of local government means this consideration does not apply to the LGPS. In short, the LGPS is unique, and considerations that may apply to other public sector, or private sector, schemes may not be relevant when discussing reform of the LGPS.

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7 Source: CLG, Revenue Outturn RO3 2008-09 Final Release Data by Local Authority. Obtained from CLG.
8 HM Treasury, 'June Budget 2010' (2010), p.17

Furthermore, the typical benefits received by LGPS members are comparatively low by comparison with other public pension schemes. For the LGPS as a whole, the average annual pension is £4,000.[9] Within the largest LGPS fund, the London Pension Fund Authority (LPFA), the average pension for a full-time employee is £6,800 per annum, and for a part-time employee £2,200 per annum.[10]

Now is a germinal moment for the LGPS. The reforms of the Public Service Pension Commission will shape the landscape of local government for generations, and represent a chance to ensure a sustainable and equitable future for our councils, council workers and taxpayers. The LGPS' history of good management and its unique place in the myriad of public sector pension schemes make it well-placed to meet the challenges of the Twenty-First Century.

The Inquiry has been asked to issue an interim report within 3 months and a final report 7 months later. There is genuine concern that the speed of this inquiry will mean that the LGPS is subject to the same reform as the very different unfunded public sector pensions.[11] It is essential that the inquiry is able to treat the LGPS as a separate entity to ensure that the reformation process produces an optimal outcome for councils, employees and the taxpayer.

For this to happen, however, it is essential that both central and local Government remain balanced about future LGPS costs and current financial pressures. The LGPS should not be treated in the same way as the unfunded public sector pension schemes by the Commission, and to do so could mean exacting unnecessarily draconian reform on the pension provision of millions of hard-working council employees, who have diligently paid their pension contributions over the course of their careers. Moreover, it may remove funding unnecessarily from frontline services at a time when local authorities are feeling their most severe budget cuts in decades.

9 Local Authority Pension Fund Forum, *'LAPFF submission to the Independent Public Service Pension Commission chaired by John Hutton'* (2010). p.1

10 Source: http://www.affordable-lgps.org.uk/Info/lpfastats.htm

11 LGC, Hutton's deadline 'too tight' 22nd July 2010

In this report we argue that:

- Councils should be allowed to set longer-term targets to reach full-funding. This would allow deficit recovery to be set over a longer period and reduce the rate at which deficit funding contributions are made. Councils could then use the saving towards service provision in the short-term. This will allow them to manage their finances more effectively to meet both the current and future needs of their residents and employees. Such decisions must only be taken with the agreement of the community;
- The Public Service Pensions Commission should consider the LGPS separately from the unfunded public service pension schemes, in light of its differing regulatory scheme, funding history, and membership composition. Given its history of conscientious fund management, the LGPS should be extended greater individual discretion over the shape of future reform;
- A full consultation with LGPS stakeholders in local and central government, public sector workers' unions, and the actuarial and investment sectors should be held as part of the Commission's deliberations;
- In the same vein we encourage all participants in such a discussion to continue to take an open-minded approach to the reform process. This is essential to ensure any reform of the LGPS is both sustainable in the long-term, and fair to both scheme members and the taxpayer;
- The system of LGPS regulation currently in place should be reaffirmed by the Public Service Pensions Commission to give councils the flexibility to manage the ongoing costs of the LGPS alongside the effects of the titanic financial and social pressures resulting from the Government's spending retrenchment;
- Local government pension fund managers should continue to prepare and publish regular and transparent funding status reports and a strategy for reaching full funding. This will ensure public confidence in the good management of the fund, and facilitate the strategic use of fund assets to solve short-term revenue problems, without jeopardizing the path to full funding.

It is possible for councils to close their LGPS deficits in a long-term, sustainable way that is equitable to their workers and council tax payers. This can even be done in a way that frees up money to help mitigate the effects of the tsunami of funding cuts facing local services in the short-term. All of this is possible, but only if councils prepare cogent, transparent and well-structured long-term plans for the future of their pension funds, in collaboration with LGPS stakeholders.

1 *Introduction*

The Local Government Pension Scheme

The LGPS is the largest UK public pension scheme, with 3.9 million members, and total assets of over £97.2 billion in English schemes.[12] The Scheme is administered locally for participating employers through 89 regional Administering Authorities in England and Wales, the largest of which is the London Pensions Fund Authority (LPFA). This has over 73,000 members and assets of over £3.2 billion.[13]

The LGPS is a defined-benefit, funded pension scheme, meaning that both employees and employers contribute to the LGPS. 'Employees' contributions are fixed [on a graded wage-dependent scale], while employers' contributions vary depending on how much is needed to ensure benefits under the Scheme are properly funded',[14] with the employer's contribution rate set for each fund by a Fund Actuary. This rate is set every three years as part of the actuarial valuation of each fund's assets and liabilities required under the scheme regulations. The funded nature of the LGPS is one of the distinguishing features between it and other public sector pension schemes, which are typically unfunded.

The LGPS serves as the pension fund for a wide array of local government jobs, from front-line workers to chief executives. The LGPS provides pensions for council and local government employees, non-operational staff in the policing, fire-fighting and education sectors, charitable and other organisations that serve a community of interest within local government and some employees of private-sector companies that work heavily with local government. While the LGPS does pay some large pensions to local government senior management, this group is comparatively very small, with a far larger proportion of scheme members working part-time or in low-income employment. Thus the typical pensions drawn from the scheme fund are concomitantly small. To take the LPFA as an example: 30 *per cent*

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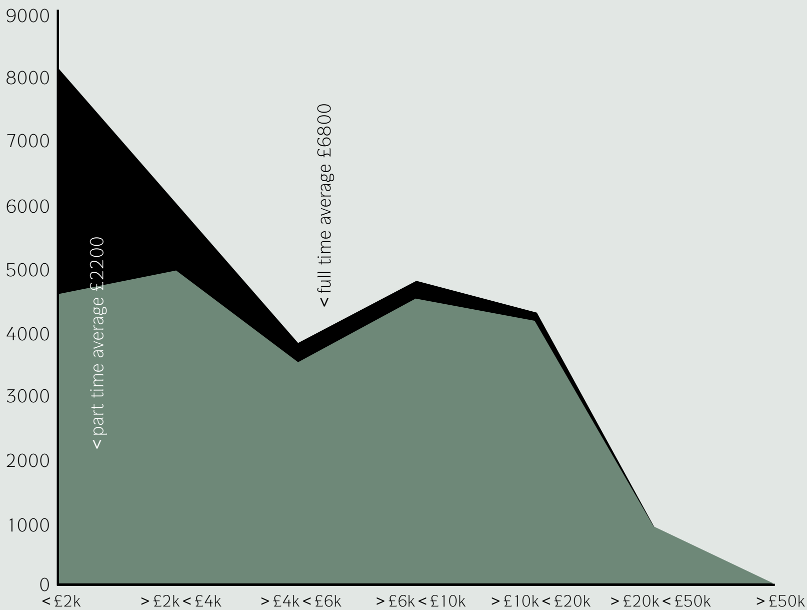
12 Ibid. Ref. 3

13 At June 2009

14 Source: http://www.lgps.org.uk/lge/core/page.do?pageId = 100438 and http://www.lgps.org.uk/lge/core/page.do?pageId = 209454

of pensions currently in payment are of less than £2,000 per annum, while only 0.09 *per cent* of pensions in payment are of greater than £50,000. The average pension for a full-time employee is £6,800 per annum, while the average pension for part-time employees is £2,200 per annum.[15] Meanwhile, 72 *per cent* of members of the West Midlands Pension Fund receive a pension of less than £5,000 per annum,[16] and 80 *per cent* of pensions paid by the Greater Manchester Pension Fund are below £7,000 per annum.[17] As Figure 1 shows, the liability load of the LGPS is heavily skewed towards those on low or unstable incomes, and this fact should be considered when the terms of the LGPS are reviewed.

Figure 1 Distribution of pensions payable from the LPFA to full-time (light blue) and part-time (dark blue) employees



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15 Source: http://www.affordable-lgps.org.uk/Info/lpfastats.htm
16 Ibid. Ref. 5 p.3
17 Audit Commission, '*Local government pensions in England: An information paper*' (2010) p.13
18 Ibid. Ref. 15

The LGPS investment governance framework

LGPS administering authorities are required to prepare, publish and maintain a statement against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles are based upon Lord Myners' 2001 report *Institutional Investment in the United Kingdom: A Report*.[19] He found that, due to a lack of expertise amongst pension fund trustees, the management of funds was often outsourced to a very small set of investment consultants. This produced investment inertia (as trustees felt unqualified, and consultants impotent, to act) and a lack of variety of advice and investment strategies.

It was his opinion that a 'Minimum Funding Requirement' or funding and solvency standards would not act as a useful means of pension fund regulation, as these can paint a false picture of the health of a fund (see box below). [20]

One-off funding assessments can be misleading

One hundred *per cent* funding at a given assessment is evidence that the fund's assets can meet all its current liabilities (net present value of future payments to pensions, in respect of rights accrued to date) at that moment. But the value of those assets depends upon market performance, and so depression in the market or an increase in liabilities in the future can lead to sub-100 *per cent* funding. Thus in order to guarantee (within reasonable bounds of confidence) 100 *per cent* funding the actual level of funding must be far in excess of 100 *per cent* (125 *per cent* according to one analysis),[20] to protect against any market-derived drop in asset values. A drive for guaranteed full funding can result in artificially high costs for the pension fund.

Instead the Report argued for increased trustee expertise in the investment sector, and the regular issuing of a transparent and accountable statement of investment and funding policy to allow the monitoring of fund performance and prospects. These proposals were outlined in a series of ten principles, known as the Myners Principles.

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19 Paul (Lord) Myners, *Institutional Investment in the United Kingdom: A Report* (HMT, 2001)
20 Prof. Andrew Clare, 'The Local Government Pension Scheme: the risks borne by its members and council tax payers', speaking at *Challenges Facing Local Authority Pension Schemes* (26 March 2010)

An evaluation carried out in 2004 of progress made by pension fund managers towards meeting the Myners Principles concluded that this voluntary approach was beginning to work, but needed to be strengthened.[21] To this end the Pensions Regulator was created. A subsequent review of the system was published in 2007 by the National Association of Pension Funds (NAPF).[22] Again, this found that uptake of the voluntary reporting scheme was improving, and recommended that voluntarism should remain at the heart of the regulatory system.

There are no statutory minimum funding requirements for the LGPS or specified investment options. Nor are statutory time-frames in place for LGPS administrators to close funding gaps. Instead fund trustees are required to prepare, publish and maintain a Funding Strategy Statement (FSS), detailing the current funding level of the scheme, and their strategy for meeting the fund's liabilities. The medium to long-term aim of individual LGPS funds is to reach full-funding. Progress towards this aim is monitored triennially through actuarial valuation reports. This shows fund contributions, liabilities and funding level, and allows the fund's administrators to plan for future requirements likely to be made upon it. The latest of these evaluations were held in 2004 and 2007, with the results of another conducted as at 31 March 2010 expected later in the autumn of 2010.

- We propose that this system of regulation has been a success, and offers a continuing mechanism for councils to manage their pension funds flexibly alongside their other financial responsibilities. The system of LGPS regulation currently in place should be reaffirmed by the Public Service Pensions Commission to give councils the flexibility to manage the ongoing costs of the LGPS alongside the effects of the titanic financial and social pressures resulting from the Government's spending retrenchment;

- Local government pension fund managers should continue to prepare and publish regular and transparent funding status reports and a strategy for reaching full funding. This will ensure public confidence in the good management of the fund, and facilitate the strategic use of fund assets to solve short-term revenue problems, without jeopardizing the path to full funding.

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21 HMT, *Myners principles for institutional investment decision-making: review of progress* (HMSO, 2004)
22 NAPF, *Institutional Investment in the UK: six years on. Report and Recommendations* (2007)

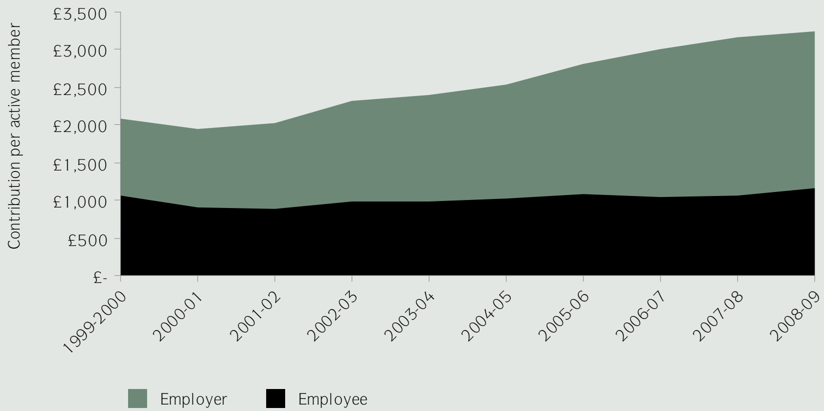
2 *The current state of the LGPS*

The LGPS, like many investment-based funds, has been hard-hit by the recent 'credit crunch' recession. Market-driven falls in portfolio values have resulted in a sharp drop in income from LGPS fund investments, and a concomitant decrease in fund sizes.

The LGPS over the past decade

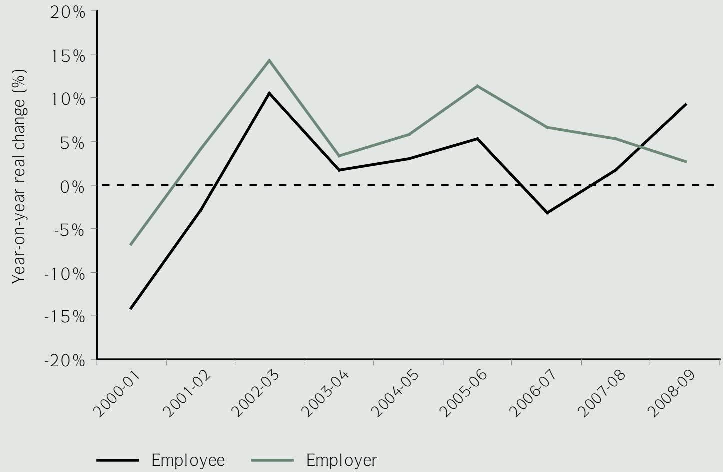
For the past decade the average contribution per active scheme member has increased in real terms for both employers' and employees' contributions, as shown in Figure 2. While in the early part of this period employer and employee contributions changed in concert, Figure 3 shows that in more recent years they have become decoupled. While employers still contribute more than employees, employer contributions per member are plateauing at approximately £3,200 per member per annum, and the level of employee contributions is accelerating following the reformation of the contribution system in 2008.[23]
[24]

Figure 2 Average real contribution rates per active member of the LGPS between 1999-2000 and 2008-09[24]



23 Ibid. Ref. 6
24 Values are in 2009-10 prices. Source: Annual LGPS (SF3) returns.

Figure 3 Year-on-year real change in contribution per LGPS active member between 2001-02 and 2008-09[25]



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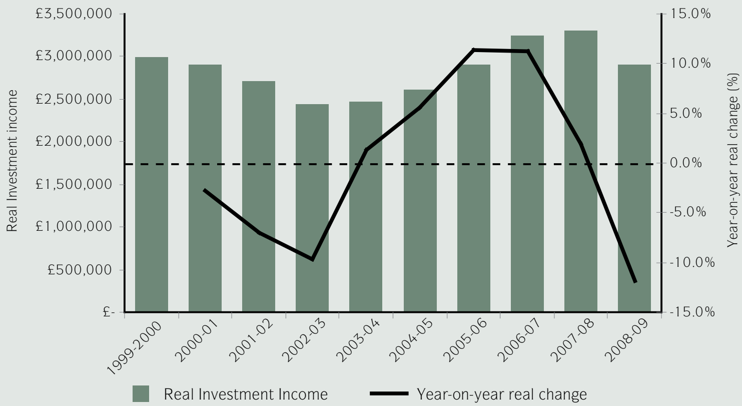
This, combined with the cyclical nature of investment returns over the same period (shown in Figure 4), has resulted in a similar oscillation in the total value of the LGPS in real terms.[26]

Figure 4 LGPS investment income and year-on-year real terms changes between 1999-2000 and 2008-09[26]

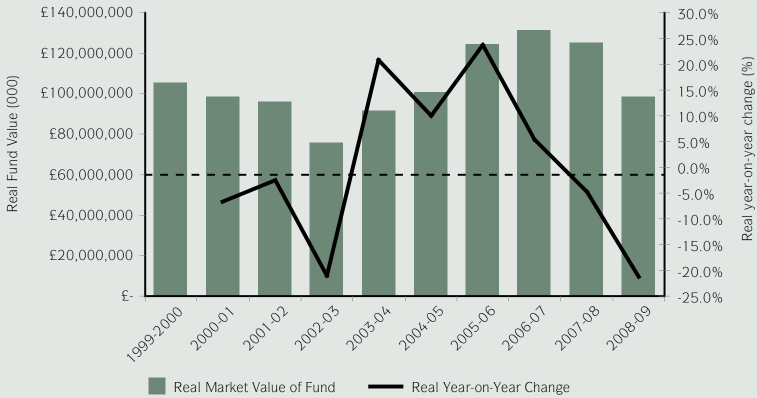


25 Data sourced from annual LGPS SF3 returns.
26 Values are in 2009-10 prices. Data sourced from annual LGPS SF3 returns.

Both investment income and total fund value recovered from the post-'dot com bubble' stock market depression in the early years of the twenty-first century, with the LGPS reaching a peak value of £131 billion in 2006-07 (in 2009-10 prices). However investment income has collapsed during the recent recession the year-on-year change in investment income was 11.3 *per cent* in real terms in 2006-07 and -11.8 *per cent* in 2008-09. This has resulted in the LGPS losing 25 *per cent* of its total real terms peak value, standing at £98.6 billion in 2008-09 (in 2009-10 prices).[27] Figure 5 summarizes these changes in LGPS total worth.

These oscillations in total fund value have had knock-on effects upon the extent to which the LGPS' assets can meet its liabilities. At the most recent valuation in 2007, total funds were at 83.5 *per cent* of liabilities.[28] This was an increase from 74.9 *per cent* at the previous 2004 evaluation, and resulted in part from a 4 *per cent* increase in employer contributions over the intervening period, to an average of 19.5 *per cent*.[29] Average employee contributions over the same period were 6.5 *per cent* of gross pay.[30] The Audit Commission has recently estimated that the average LGPS funding level is currently 72 *per cent*, such that the fund has emerged from the recession at approximately 2004 levels of funding.[31] [32]

Figure 5 LGPS investment income and year-on-year real terms changes between 1999-2000 and 2008-09[32]



27 Ibid. Ref. 3
28 Ibid Ref.7 p.1
29 Ibid. p.4
30 Ibid. p.1
31 Audit Commission, '*Local government pensions in England: Technical appendices to the Audit Commission information paper*' (2010)
32 Values are in 2009-10 prices. Data sourced from annual LGPS SF3 returns.

The funding deficit

It is expected and has been prediced by the Audit Commission that the results of the 2010 valuation will reveal a dramatic decrease in funding level across the LGPS, due to fluctuations in the value of the various pension funds' asset portfolios since 2008.

This concern has not been mitigated by the financial statements that individual LGPS Administering Authorities have released over the past year:

- Surrey County Council recently announced that it had failed to meet the 6.1 *per cent* returns target set for its pension fund at the 2007 valuation, and had instead more than doubled its deficit, from £460 million to £1,099 million;[33]
- The value of Somerset County Council's pension fund has declined by almost a third in the past year;[34]
- The deficit for the West Midlands Metropolitan Authorities' Pension Fund (which manages the pensions of employees of Wolverhampton, Walsall, Sandwell, Dudley, Birmingham, Coventry and Solihull councils) currently stands at 'well above £3 billion', with Wolverhampton City Council alone recording an almost 50 *per cent* increase in its deficit, from £314 million to £465 million over the past year;[35]
- The LPFA puts the current funding level of its active sub-fund at 60 *per cent* (down from 82 *per cent* at the 2007 evaluation), resulting from a deficit of £1.225 billion (from £487 million in 2007).[36]

However, it is important to note that for the past decade, and throughout the recent economic downturn, councils have managed their pension fund costs and contribution rates such that they have always run surpluses on their funds. This net flow of cash into the funds is shown in Figure 6.

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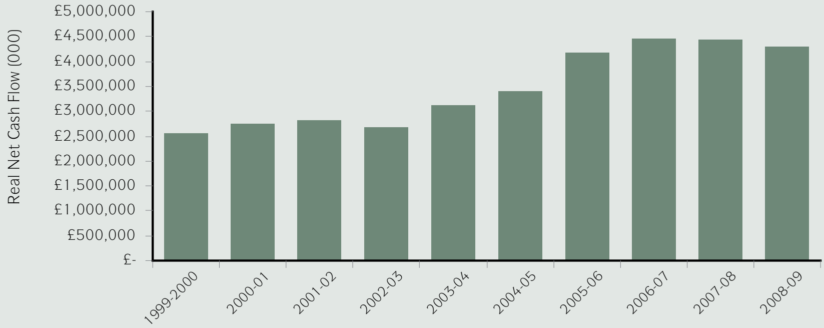
33 Dean Carroll, 'Fears grow over pension shortfall', *Public Service.co*.uk, 4 June 2010. available at: http://www.publicservice.co.uk/news_story.asp?id = 13143

34 Mark Conrad, 'Independent body needed to handle LGPS, says expert', *LocalGov News*, 3 March 2010. Available at: http://www.localgov.co.uk/index.cfm?method = news.detail&id = 86923

35 '£3bn black hole in public sector pensions', *Express & Star*, 25 June 2010. Available at: http://www.expressandstar.com/news/business/2010/06/25/3bn-black-hole-in-public-sector-pensions/

36 LPFA, *Strategic Policy Statement 2010-13* (1 April 2010). Available at: http://www.lpfa.org.uk/docs/pdf/LPFA%20Strategic%20Policy%20Statement%202010-13.pdf

Figure 6 Net real cash flow into the LGPS between 1999-2000 and 2008-09 [37]



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Thus the current system of LGPS funding ensures that active members' pensions are fully-funded. However, while this is the case, and while in 2008-09 contributions and investment income for the LGPS totaled £10.8 billion, with benefit payments of only £5.6 billion,[38] the LGPS still maintains a large funding deficit, which has been estimated to stand at £20 billion.[39]

The deficit has three main sources;

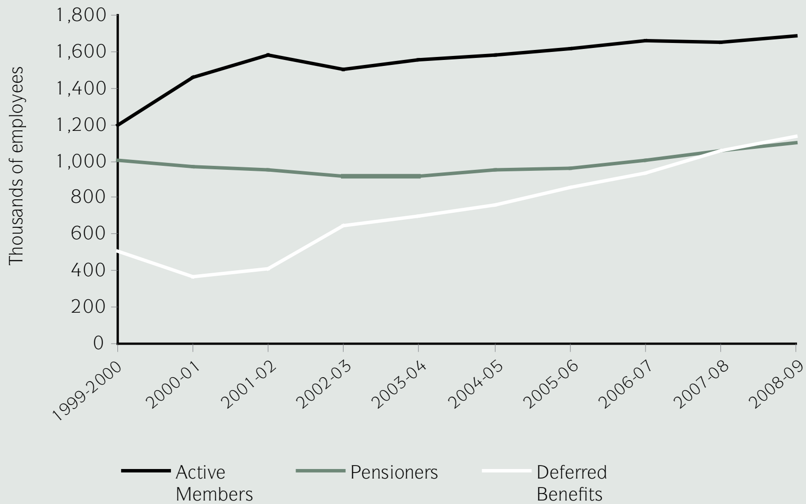
- changes in workforce demographic, particularly increasing longevity in life-expectancy,
- past management of the LGPS that has included a 'contributions holiday' in the 1980s and a funding level of 75% in the early 1990s
- poor investment performance.

For the past decade the number of former employees entitled to deferred benefits has been rising, as shown in Figure 7, and in 2008-09 for the first time this group exceeded the number of pensioners. As members entitled to deferred benefits no longer pay contributions into the fund they represent

37 Values are in 2009-10 prices. Data sourced from annual LGPS SF3 returns, and net cash flow calculated as total contributions and investment income, minus benefits paid and administrative costs.
38 Ibid. Ref. 3
39 Ibid. Ref. 4

ongoing fund liabilities in the absence of income potential. Thus the increasing proportion of LGPS members who fall into this category serves to decrease the overall level of scheme funding.

Figure 7 LGPS membership profile trends between 1999-2000 and 2008-09 [40]



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These changes have been partially off-set by a change in the inflationary measure used to calculate annual increases in pension levels. The LGPS now uses the typically lower Consumer Price Index, as opposed to the Retail Price Index, as a means of indexing pensions. This means that the total value of the pensions in payment each year is lower than it would have been had this change not been adopted. It is currently unclear how this will be reflected in the 2010 triennial assessment, as it is uncertain how much emphasis actuaries will place on this.

A further and notable source of the LGPS' funding deficit is historic: during the 1980s many councils took a central Government-authorised contributions holiday.[41] Following this a funding level of 75% was set in the

40 Data sourced from annual LGPS SF3 returns
41 Source: http://www.unison.org.uk/pensions/pages_view.asp?did=9516

early 1990s to enable councils to cope with the wave of budget cuts made by central government. As a result employees from this period accrued substantial benefit liabilities without the corresponding funds being set aside to meet these liabilities. The funding deficit is in part a reflection of these missing employer contributions, which are now beginning to be required as these employees reach retirement age and start to claim pensions.

Finally, the degree of funding of a pension scheme, with relation to its liabilities, is calculated by offsetting its assets against its liabilities. Therefore, the poor investment performance of recent years has lowered asset worth and exacerbated these pre-existing structural problems.

This funding deficit has to be closed if the LGPS is not to become in essence a 'pay-as-you-go' system like the unfunded public service pension schemes. To prevent this, councils make deficit recovery contributions in excess of the contributions required to fund current employees' pensions. These contributions are intended to make up the historic shortfall in payments, and in 2008-09 represented 5.4 *per cent* of gross pay (£1.51 billion total contribution).[42]

42 In 2009-10 prices. Data sourced from annual LGPS SF3 returns.

3 *The future state of the LGPS*

Financial challenges facing local authorities

Local authorities face unprecedented financial pressures over the course of this Parliament as a result of a combination of the longest recession since records began in 1955[43], a suite of policy and demographic changes, and the Government's resolution to eliminate 'the bulk of the structural deficit'[44] in the nation's finances over the next five years.

The June Budget set out plans to reduce the structural deficit by £113 billion per year from 2010-11 to 2014-15, with 80 *per cent* of this accounted for through spending reductions.[45] As Annual Managed Expenditure (which incorporates interest payments on national debts and benefits payments) is forecast to grow over this period, and the Government has committed to protection of several areas from real terms cuts[46], the Chancellor has revealed that such ambitious fiscal consolidation plans will require a 25 *per cent* cut in unprotected Departmental Expenditure Limits (the money the Government spends on providing public services, including its funding for local government).[47]

Beyond the Government's previous protection pledges, the June 2010 Budget also suggested that expenditure on education and defence would not face cuts as swingeing as other departments'.[48] In its analysis of the June Budget the IFS predicted that education and defence spending will undergo a 10 *per cent* real terms reduction by 2014-15 due to sub-inflationary budget increases over this period. Such 'semi-protection' would result in a cumulative 33 *per cent* reduction in Government spending in remaining unprotected areas, including grant funding to local government.[49]

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43 BBC News, *Record recession for UK economy* (2009). Available at: 'http://news.bbc.co.uk/1/hi/business/8321970.stm

44 Ibid. Ref. 8

45 Ibid. Ref. 8

46 The Government has pledged real terms increases in NHS spending for every year of the Parliament, and also to 'honour our commitment to spend 0.7 *per cent* of GNI on overseas aid from 2013'. Source: Cabinet Office, *The Coalition: our programme for government* (2010)

47 Ibid. Ref. 8

48 "…of course, not all departments will receive the same settlement. I recognise, for example, the particular pressures on our education system and on defence", Budget statement by the Chancellor of the Exchequer, the Rt Hon George Osborne MP, 22 June 2010

49 Rowena Crawford, *Public services: serious cuts to come* (IFS, 2010). Available at: http://www.ifs.org.uk/budgets/budgetjune2010/crawford.pdf

In our recent report *'Scanning Financial Horizons: Modelling the local consequences of fiscal consolidation'*[50] this 33 *per cent* reduction in protected government grant was used as a starting point for detailed financial modelling of local government income streams over the course of the Parliament. The analysis suggested that (in the middle of three possible scenarios) local authorities will face a 16.5 *per cent* real terms fall in total income by 2014-15, amounting to some £12.1 billion in 2009-10 prices.[51] Over the same period councils can expect expenditure demands to rise significantly due to the knock-on legacy effects of the recession and necessary cuts to public services, an aging population drawing more heavily on social services, and the investment necessary to meet new environmental policy requirements.[52]

Councils will be stretched to their limits by these cuts, and will need to seek radical service redesign to order to provide a sufficient level of innovative efficiencies and services for their residents.

The flexibility afforded by the LGPS, and the distinctions between it and both private schemes and unfunded public schemes, offers councils the opportunity to mitigate the effects of financial retrenchment by diverting a proportion of their deficit recovery contributions towards revenue service provision in the short term. If councils cut their deficit recovery contributions by only 10 *per cent* in 2014-15, they would free up over £200 million for provision of otherwise threatened services. This is equivalent to all the money councils spent in 2008-09 on keeping roads safe and pothole-free during the winter, or almost twice the total expenditure on children's social care strategy in the same year.[53]

The current time-scales for the closure of the deficit are set as if local government were a private company. For the pensions of companies that can go bust or cease to exist it is vital that a fully-funded pension pot exists to ensure that employees are not penalized in this event. The actuarial evaluation of the LGPS' deficit is based upon this principle. However, local government is fundamentally different to this through its constitutional permanence. The ultimate underwriter of LGPS liabilities, the government, cannot become insolvent and therefore there is less imperative for its deficits

50 Ibid. Ref. 5
51 Ibid. Ref. 5 p.27
52 Ibid. Ref. 5 Chapter 3, pp.39-56
53 Ibid. Ref. 7

to be closed in the time-scales that are currently set. This is not to argue that the deficit must not be closed eventually, but to state that the scheme offers the flexibility to do so over a longer period of time.

The counter-argument to plugging the deficit over a longer period is that of inter-generational equity. It may be regarded as unjust to lengthen the funding horizon of the LGPS' deficit because of the impact this has on council tax payers in the future. The next generation would in effect be financing today's services.

It is for this reason that utilizing the flexibility of the LGPS must only be done with the full agreement of the councils and their communities. It is ultimately a value judgment as to whether it is more important to protect services today or preserve greater generational equity. A full consultation with communities is needed, with awareness of the types of service that may be saved and the future financial implications of doing so.

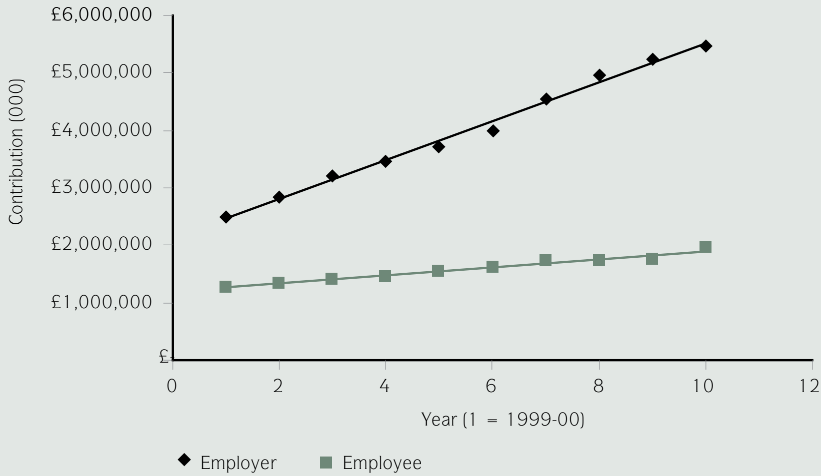
- Councils should be allowed to set longer-term targets to reach full-funding. This would allow deficit recovery to be set over a longer period and reduce the rate at which deficit funding contributions are made. Councils could then use the saving towards service provision in the short-term. This will allow them to manage their finances more effectively to meet both the current and future needs of their residents and employees. Such decisions must only be taken with the agreement of the community.

The cost of the LGPS over the medium and long-term

It is against this backdrop of massively falling income and rising service demands that local authorities will have to continue to work towards closing the funding deficit in the LGPS.

Payments into the LGPS funds arise from employer and employee contributions, and returns on previous investments. While the investment income varies cyclically with market performance (see Figure 4), there has been a very strong linear trend in employer and employee contributions over the last decade, as shown in Figure 8.

Figure 8 Employer and employee contributions to the LGPS fund over time, in real terms, with trend lines [54]



54

It is therefore possible to use this regression analysis to predict the costs of LGPS contributions to employers over the medium term. According to historical trends, deficit recovery contributions will total £2.06 billion in 2014-15 (in 2009-10 prices). This level of deficit recovery contribution would represent a 37.7 *per cent* increase in real terms over contributions in 2008-09.[55] Were this increase to be met entirely from increases in council tax (which is the only major revenue source local authorities have the flexibility to change to increase income), a 2.2 *per cent* real terms increase in council tax from 2010-11 levels would be necessary. This equates to an additional £26 onto an average bill.[56] The Chancellor announced in the June Budget that council tax would be frozen in 2011-12.[57] Were such a freeze to be maintained in subsequent years councils would be hard-pressed to meet these rising LGPS contribution costs without impacting further upon service provision.

54 Values are in 2009-10 prices, and trend lines were fitted via an automated regression analysis. The R^2 coefficient for employer contributions over time is 0.9925, and the R^2 coefficient for employee contributions over time is 0.9707.

55 2008-09 is the most recent year for which SF3 returns are available.

56 Source: CLG average council tax per dwelling 1993-94 to 2010-11 figures. Available at: http://www.communities.gov.uk/documents/statistics/xls/1516762.xls

57 Ibid. Ref. 8 p.53

It is important to remember that this prediction assumes no change to the regulatory framework governing the LGPS, or to the number of active members of the scheme. If councils were to be forced to close their funding gaps sooner than they have been anticipating contributions would have to increase commensurately. Conversely, smaller numbers of active members would decrease the contribution costs for local authorities, yet cause the scheme to mature more quickly.[58] It seems likely that jobs will be lost in the public sector over the next five years, with estimates ranging from 600,000[59] to 1.3 million.[60] Thus the total cost to councils of LGPS contributions is likely to be lower than estimated, though in the absence of firmer figures for the extent of public sector redundancy no attempt has been made to model this difference here. However, because there will be fewer employee contributions and active members made the schemes will begin to approach maturity point more quickly.

Professor Andrew Clare, the Chairman of the Cass Business School and Fathom Financial Consulting, recently presented a more long-term analysis of the future costs of closing the funding deficit in the LGPS.[61] He assumed an employee contribution rate of 6 *per cent* of gross salary, and an employer contribution rate of 15 *per cent*. He assumed a starting fund value of £120 billion, and used a standard private sector pension scheme target for full funding (full funding reached by 2021-22). Furthermore, he included a triennial assessment regime, whereby any surplus funds beyond the target value would be 'de-risked' from equity to gilts, and 50 *per cent* of any shortfall from the target value met by the council as a one-off payment. This set of basic assumptions predicts a total cost to the taxpayer in secondary pension contributions (i.e. extra payments beyond the standard primary employer contributions) of £38.4 billion.

However, this large cost can be reduced:

- if employer contributions were raised to 20 *per cent* of pay the cost to reach full funding by 2021-22 would be £27.6 billion.

58 Ibid. Ref. 17 p.10

59 BBC News, *Forecast suggests 600,000 public sector jobs to go* (30 June 2010). Available at: http://news.bbc.co.uk/1/hi/uk/10457352.stm

60 Larry Elliott, 'Budget will cost 1.3m jobs – Treasury', *Guardian* (29 June 2010)

61 Ibid. 20

- Currently most councils operate a 20 year timescale for attaining full funding.[62] Application of this funding trajectory would decrease the extra cost to £26.4 billion.
- The savings derived from a ten *per cent* reduction in members (through local government redundancies) in this model are £8.4 billion, bringing the total cost down to £30 billion.[63]

As with any actuarial predictions relating to future pension scheme finances these figures are average values drawn from fairly wide distributions of possible costs. However, they do serve to highlight the magnitude of costs councils are likely to face from their pension schemes, in times when they are already experiencing extreme financial pressures.

Large as they may seem, the future costs of the LGPS should be put into the context of the much larger liabilities that the unfunded public sector pension schemes represent. No monies have been set aside to fund the pensions of members of these programmes, and each year the full cost of pensions in payment is met through a combination of employee contributions (around 25 *per cent* of the cost) and government expenditure. In its pre-June Budget report the OBR estimated the cost to the taxpayer of unfunded public sector pension schemes[64] to rise from £4.3bn to £10.3 bn over the current Parliament.[65] In the longer term the National Audit Office has recently estimated the total cost to the taxpayer of unfunded public sector pensions to be £79.1 billion (in 2008-09 prices), or 1.7 *per cent* of GDP by 2059-60.[66] Thus it seems likely that the financial burden imposed by these unfunded schemes upon the taxpayer will be far greater than that of the LGPS in the medium and long-term. Though this measure is crude, not least because the LGPS and the various unfunded schemes have different membership size, these figures are used to give an indication that the LGPS is not the primary source of future public pension costs to the taxpayer.

62 Ibid. Ref. **4** p.4

63 Ibid. Ref. **20**

64 This figure represents the cost to the taxpayer beyond employer contributions (which are considered to be part of wage packages) for all public sector pensions except the LGPS, Police Pension Scheme, and the Firefighters' Pension Scheme.

65 Office for Budget Responsibility, *OBR Pre-Budget forecast: Public sector pensions* (HMSO: 2010).

66 NAO, *The cost of public service pensions* (12 March 2010)

- The Public Service Pensions Commission should consider the LGPS separately from unfunded public service pension schemes, in light of its differing regulatory scheme, funding history, and membership composition. Given its history of conscientious fund management, the LGPS should not be punished for the Government's lack of fore-planning regarding other public service pension provision;

4 *Time for LGPS reform?*

The current political climate is one of financial restraint, and the rhetoric of Whitehall speaks of Britain 'moving from an age of plenty into an age of austerity'.[67] As such public sector pension schemes 'cannot remain immune from the major demographic and structural changes' affecting other areas of Government spending[68], and there is increasing political will to tackle their growing cost to the public. George Osborne, while still Shadow Chancellor, promised 'a review of… the largest public sector pensions, that will help put our public finances on a sustainable footing.'[69] Following the election these sentiments were echoed by Deputy Prime Minister Nick Clegg, who referred to public sector pensions as 'gold plated'.[70] Since this speech public sector pension reform has begun, with the BBC announcing that it will be closing its final salary pension scheme to new members, and slowing the rate at which current employees earn benefits in a bid to reduce its spiraling costs.[71]

Partial reform of the LGPS has already been enacted in recent years, and many proposals to further reduce its costs have been suggested. From 2008 employees' contributions have been on a sliding wage-based scale, with the lowest-paid members contributing 5.5 *per cent* of their salary to the scheme, and the highest-paid contributing 7.5 *per cent*.[72] Further, the December 2009 Pre-Budget Report announced the introduction of a cap-and-share system for the LGPS.[73] Under this reform; employer contributions

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67 Chris Giles, George Parker & Alex Barker, 'David Laws interview transcript', *Financial Times*, (21 may 2010). Available at: http://www.ft.com/cms/s/0/5826134e-6435-11df-8618-00144feab49a.html

68 John Hutton, 'Opinion: Time to forge a new consensus on pensions', *Financial Times,* (27 June 2010). Available at: http://www.ft.com/cms/s/0/a2d2ff72-821e-11df-938f-00144feabdc0.html

69 *George Osborne, Mais Lecture – A New Economic Model* (24 Feb 2010). Available at http://www.conservatives.com/News/Speeches/2010/02/George_Osborne_Mais_Lecture_-_A_New_Economic_Model.aspx

70 BBC News, *Public sector pension costs "to double in five years"* (15 June 2010). Available at: http://news.bbc.co.uk/1/hi/politics/10305817.stm

71 Norma Cohen, 'BBC ends final salary pension plan for new staff', *Financial Times*, (29 June 2010). Available at: http://www.ft.com/cms/s/0/14093446-8372-11df-8451-00144feabdc0.html

72 Source: http://www.lgps.org.uk/lge/core/page.do?pageId=209454

73 HM Treasury, *Securing the recovery: growth and opportunity. Pre-Budget Report December 2009* (HMSO, 2009), p.117

would be capped, any costs below this cap shared between employers and employees, and any cost above the cap borne by the employees alone. At the start of 2010 the precise application of the cap-and-share provisions were undergoing consultation within the department of Communities and Local Government.[74]

Beyond this multiple possible reforms or combinations of reforms for the LGPS have been proposed. The most common of these are given below:

- Reduce the benefits new scheme members can expect upon retirement;
- Increase the age at which members are entitled to claim benefits, as has been proposed by the CBI[75], or increase the length of service before qualification for deferred benefits;
- Move from a final salary to a 'career average earnings' scheme, where the benefits received do not depend upon the salary at retirement, but instead on the average salary over the worker's career. This tends to lower the pensions received by long-serving employees who have worked their way up the career ladder;
- Switch from a defined-benefit to a defined-contribution scheme, as most of the private sector pension schemes have previously done;
- Convert the LGPS into a scheme similar to the Dutch public sector pension fund, as has been proposed by Anthony Meyer, the Chairman of the LPFA.[76] Here contribution and benefit rates, and decisions about the target level of funding, are made not by legislation, but by a 'Pensions Chamber' consisting of employer and employee representatives. Also, the level of benefits to be paid under this system is dependent on fund investment performance through a series of mathematical formulae. This makes prediction of future liabilities much less uncertain than is currently the case for the LGPS.[77]

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74 London Pensions Fund Authority, *Pensions Update* (Jan 2010). Available at: http://www.lpfa.org.uk/docs/pdf/pensionupdate/20100131/PensionsUpdate310110.pdf

75 CBI, *Press Release* (6 April 2010). Available at: http://www.cbi.org.uk/ndbs/press.nsf/0363c1f07c6ca12a8025671c00381cc7/d1c3c285facecb5a802576f6002fd3c8

76 Anthony Meyer, speaking at LPFA *An Affordable and Sustainable LGPS* Symposium (24 Feb 2010)

77 Source: http://www.affordable-lgps.org.uk/Info/holland.htm

LGPS reform was brought a step closer in the June 2010 Budget, which stated that 'an independent commission chaired by John Hutton will undertake a fundamental, structural review of public service pension provision by Budget 2011 and consider the case for short-term savings in the Spending Review period, by September 2010.'[78] This commission will consider all public sector pension schemes, including the LGPS, and seek to produce 'pension arrangements that are sustainable and affordable in the long term', and which are 'fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead.'[79] The Government has also pledged to protect the accrued benefits of existing scheme members, but even so there have been warnings of industrial unrest from public sector workers' unions, should pension reform be enacted.[80]

Therefore review and reform of public sector pensions is certain, and the LGPS will be part of that reform. The consequences of such changes are still uncertain, but will by their nature be far-reaching in both time and space, affecting both councils and their staff for potentially decades to come. It is therefore essential that the Government gets it right regarding these reforms, and equally vital that all interested parties are engaged in a full and open discussion before any changes are made.

- A full consultation with LGPS stakeholders in local and central government, public sector workers' unions, and the actuarial and investment sectors should be held as part of the Commission's deliberations;
- In the same vein we encourage all participants in such a discussion to continue to take an open-minded approach to the reform process. This is essential to ensure any reform of the LGPS is both sustainable in the long-term, and fair to both scheme members and the taxpayer;

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78 Ibid. Ref. 8 p.17

79 Public Service Pensions Commission terms of reference. Available at: http://www.hm-treasury.gov.uk/press_14_10.htm

80 Alex Barker, 'Osborne paves way for public sector levy', *Financial Times*, (20 June 2010)

5 *Conclusions and recommendations*

At the same time the costs of the LGPS are ever-increasing, and likely to reach £2.06 billion in terms of deficit recovery contributions by 2014-15.[81] This must be seen as merely one of the likely expenditure demand increases councils will face in the medium-term the extra costs of an aging population and the investment costs associated with future environmental commitments.

If councils were to work towards full funding of their schemes over longer timeframes than currently typical, lower annual deficit recovery contributions would free revenue income for service provision, at a time when services are increasingly becoming squeezed. One County Council Leader told us that such reductions in contributions would generate £4-5 million for spending on adult social services, for example.[82]

Given the statutory nature of local government, and the implications this has for the long-term viability of the LGPS, we feel that councils could profitably use a proportion of their deficit recovery pension contributions to maintain front-line service provision. Important as it is to move towards full funding of the LGPS, the immediate and urgent pressures on council finances and services should take precedence in the short-term. However, the implications for inter-generational equity mean that such decisions must only be taken following consultation with the community.

The current local government financial 'perfect storm' has ramped up the political pressure for reassessment of the LGPS, and John Hutton's 'root and branch reform' of the scheme has been commissioned to report initially before the Autumn Comprehensive Spending Review.[83] Now, then, is the time for the local government sector to influence the Commission's findings, and direct reform of the LGPS towards a system which is both sustainable and equitable.

When discussing public sector reform, there are major differences between the LGPS and other public sector pension schemes that should be

81 In 2009-10 prices
82 Telephone interview with County Council Leader (April 2010)
83 Ibid. Ref. 72

considered. Firstly, and most conspicuously, the LGPS is a funded scheme. Similarly LGPS fund administrators have been conscientiously engaged over the past decade in working within an entirely voluntary system towards full funding of their schemes, much like the administrators of private sector pension funds.[84]

Care also needs to be taken not to confound LGPS pensions with so-called 'gold-plated' public sector pensions. A high proportion of LGPS members work in part-time or low-paid jobs; and two-thirds of them are women. The most common occupation for a LGPS member is teaching assistant, with large proportions of scheme members working as care assistants, cleaners, and dinnerladies.[85] The pension benefits these employees receive are relatively small: within the largest fund, the LPFA, the average pension for a full-time employee is £6,800 per annum, and for a part-time employee only £2,200 per annum.

Contributions into the LGPS are also substantially higher than into most of the unfunded schemes (excluding the uniformed services - Police, Fire and Armed Services): these have a typical total employer and employee contribution of around 20 *per cent* of salary, while the LGPS has contributions in the 25-35 *per cent* range.[86]

These figures make it easy to see that the picture often painted in the media of 'fat-cat' council workers living off unsustainably 'gold-plated' pensions is misleading. Instead the vast majority of LGPS members will receive, as John Humphreys recently described them as 'tin-plated' pensions upon retirement.[87] This is not to say that the LGPS does not have a funding deficit, but merely that the member demographic should be remembered during attempts to close this deficit.

Finally, it should be remembered that while discussions of the degree of funding of the LGPS treat the fund in a similar way to private sector funded schemes local government is a statutory body, and as such cannot technically become insolvent. This makes the LGPS distinct from private sector pension

84 Ibid. Ref. 10
85 Ibid. Ref. 2
86 Neil Record speaking at *An Affordable and Sustainable LGPS* Symposium (LPFA, 24 Feb 2010)
87 John Humphreys, '*Today*', BBC Radio Four (21 June 2010)

schemes, with potential consequences for the timeframes within which it may attain full funding. LGPS cash flows are currently positive, and can be expected to remain so in the near future. As Graeme Muir of the actuarial firm Barnett Waddington recently said,

'It will be absolutely ages before we have to sell any investments; the deficits are not real numbers that are going to get called in tomorrow – we don't have to panic just yet.' [88]

These structural differences between the LGPS and a private-sector funded pension scheme, and the healthy projected cash flows of the fund mean that councils do not need to rush to full funding in 10, or even 20 years. Nor should they be forced to by central Government. While the deficits in the individual LGPS funds must be closed in the long-term, the long-term really can be the long-term for the LGPS, and councils must prioritize current service needs to some degree in the short-term.

Most importantly, a full and open consultation regarding the future of the LGPS must occur, and the scheme must not be unfairly confounded with unfunded public sector pension schemes. Further, councils' flexibility to deal with their many imminent challenges must be safeguarded through the retention of the voluntary LGPS framework, and through the extension of the funding target periods for individual funds. It is essential that both central and local Government remain coolheaded about future LGPS costs and current financial pressures.

Together these recommendations can build on the considerable and successful[89] historical effort that LGPS fund administrators and councils have exerted towards maintaining their pension schemes in a healthy financial state, and ensure that our local government workers' futures are secured, without transferring the burden unduly to the taxpayer. With well-structured and transparent strategies for the future of their pension funds, and continued flexibility of action, councils can sustainably manage their pension liabilities in a way that benefits both their workers and their residents.

88 Ibid. Ref. 33
89 Ibid. Refs. 21 & 22

Recommendations

- Councils should be allowed to set longer-term targets to reach full-funding. This would allow deficit recovery to be set over a longer period and reduce the rate at which deficit funding contributions are made. Councils could then use the saving towards service provision in the short-term. This will allow them to manage their finances more effectively to meet both the current and future needs of their residents and employees. Such decisions must only be taken with the agreement of the community;
- The Public Service Pensions Commission should consider the LGPS separately from the unfunded public service pension schemes, in light of its differing regulatory scheme, funding history, and membership composition. Given its history of conscientious fund management, the LGPS should not be punished for the Government's lack of fore-planning regarding other public service pension provision;
- A full consultation with LGPS stakeholders in local and central government, public sector workers' unions, and the actuarial and investment sectors should be held as part of the Commission's deliberations;
- In the same vein we encourage all participants in such a discussion to continue to take an open-minded approach to the reform process. This is essential to ensure any reform of the LGPS is both sustainable in the long-term, and fair to both scheme members and the taxpayer;
- The system of LGPS regulation currently in place should be reaffirmed by the Public Service Pensions Commission to give councils the flexibility to manage the ongoing costs of the LGPS alongside the effects of the titanic financial and social pressures resulting from the Government's spending retrenchment;
- Local government pension fund managers should continue to prepare and publish regular and transparent funding status reports and a strategy for reaching full funding. This will ensure public confidence in the good management of the fund, and facilitate the strategic use of fund assets to solve short-term revenue problems, without jeopardizing the path to full funding.

Appendix *Classification of pension schemes*

The diverse array of pension schemes in operation in Britain can be classified using two distinct dichotomies: the funded/unfunded dichotomy and the defined-benefit/contribution dichotomy.

Funded pension schemes are those where over time the employer and employee set aside money into an invested pension fund, the returns on which can be used to provide pensions as and when needed. Unfunded pension schemes meanwhile have no such fund, and the pension liabilities are met as required through current revenue streams. For private-sector pensions these revenues are company income (or sale of assets), while for unfunded public sector pensions the ultimate revenue stream is taxation.

Defined-benefit schemes are those in which the employee is guaranteed a pre-determined level of pension return, based on their final salary or average employment earnings. Defined-contribution pension funds by comparison are created using a fixed annual contribution by the employer and employee, with the eventual level of pension return being dependent on the performance of the fund's investments at the time the pension is drawn.

As defined-contribution, unfunded schemes cannot practically exist as they have no fund into which to pay contributions. Crudely-speaking one can consider three main types of pension fund, typical examples of which are given below:

Defined-benefit, Funded	Local Government Pension Scheme (LGPS), traditional private-sector pension
Defined-benefit, Unfunded	Other public sector pensions,[90] the State Pension
Defined-contribution, Funded	Newer private-sector pension

90 Teachers, civil servants, doctors, nurses, members of armed forces, police, fire service, etc.


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‘Austerity’ is the word of the moment in Government finance, with significant spending reductions on the horizon. Impending fiscal consolidation has thrown public sector pensions into the spotlight, with many calling for reform.

In this report we argue that reform of the Local Government Pension Scheme (LGPS) must be considered separately from other, unfunded public sector pensions. The opportunities that exist to use the flexibility afforded by the scheme to protect front-line services are also outlined, with councils urged to consider these in collaboration with their communities.