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Dear Colleague

Draft Local Government Pension Scheme (Amendment) Regulations 2005

With Ministers' agreement, I enclose, for your comments, draft regulations to amend the Local Government Pension Scheme Regulations 1997 ("the principal regulations"). The amendments, as now proposed, would have the effect of revoking provisions introduced into the principal regulations, with effect from 1 April 2005, by the Local Government Pension Scheme (Amendment)(No 2) Regulations 2004. Comments on the attached draft regulations are invited no later than 31 May 2005.

Background

Following a series of constructive meetings with representatives of the local authority employers and trades unions, the Deputy Prime Minister announced on 18 March that he was minded to revoke, at the earliest Parliamentary opportunity, the Local Government Pension Scheme (Amendment)(No 2) Regulations 2004, with retrospective effect, subject to a period of statutory consultation on draft regulations with interested parties in England and Wales.

He also announced that he was establishing a tripartite committee, which he will chair, with key stakeholders to consider what measures need to be put in place to ensure the Scheme's affordability and sustainability for the longer term. The Deputy Prime Minister intends to meet representatives of the Local Authority employers and trades unions as soon as possible to discuss a programme of action and terms of reference on the basis that nothing is ruled out or ruled in. One of the new Committee's first tasks will be to propose additional amendments to the principal regulations to ensure the continuing solvency of the Scheme for the longer term within the initial context provided by the Consultation exercise "Facing the Future: Principals and propositions for an affordable and sustainable Local Government Pension Scheme" which began on 4 October 2004 and concluded on 31 March 2005.

Effect of the Proposed Amendment

The effect of revoking the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2004 in its entirety would be to place the LGPS in the same legal position as immediately prior to those regulations coming into force on 1 April 2005. This would mean that the Scheme would once again have an earliest retirement age of 50, other than for reasons of ill-health, and would continue to provide unreduced pensions for those retiring voluntarily, between age 60 to 65 or between age 50 to 60 with employers consent, where their membership plus age totals 85.

Subject to the enclosed regulations coming into force, it is intended that further provisions will be introduced, with retrospective effect, to ensure that no Scheme member suffers any loss during the period from 1 April 2005 to the date of actual revocation. However, until that event occurs, the LGPS regulatory framework, as amended by the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2004 remains the law and full compliance with it is necessary by LGPS interests in England and Wales.

Position Going Forward

The Government has made it clear in recent announcements that all those engaged in the delivery of public services deserve safe and secure pensions. It is right, therefore, that Scheme amendments are both fair to pensioners and workers, and affordable and sustainable to employers and taxpayers in the long term.

These principles have applied for some time in the LGPS and, in developing a new approach through the Deputy Prime Minister's Pensions Committee, steps will be needed to ensure the continuing solvency of the Scheme and the viable delivery of its guaranteed pension promise.

On the basis that the outcomes of the 2004 actuarial valuation exercise have been built into local authority budgets for 2004/05, and that the provisions in SI 2004/3372 remain in force until such time as they may be revoked, there should be no immediate effect on budgets.

However, if the principal regulations were to be subsequently amended following this statutory consultation exercise and the rule of 85, for example, was reinstated for service accruing on and after 1 April 2005, there could be cost implications for local authority budgets if no rebalancing opportunities were provided in the Scheme. New regulations will need to ensure that the Local Government Pension is viable without the need for additional contributions from either the Government or the local authority employers..

Consultation on Proposed Changes for 2007/08

Responses to the invitation to comment on the consultation document "Facing the Future", published 4 October 2004, are now being carefully considered and taken into account as part of the further developmental work for a new-look Scheme and contribute to the tasks of the Deputy Prime Minister's Pensions Committee.

Responses

Consultees are requested to send their responses to these draft proposals to Nicola Rochester, LGP Division, Zone 2 E/6 Ashdown House, 123 Victoria Street London SW1E 6DE by 31 May 2005. Electronic responses can be sent to the e-mail address given above.

The Department may wish to publish responses to this consultation in due course, or deposit them in the libraries of the Houses of Parliament or the Department's library, unless we are asked specifically to treat a response as confidential. Confidential responses will be included in any published statistical summary of comments received and views expressed.

Yours sincerely,

Terry Crossley

TERRY CROSSLEY

The Chief Executive of:

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- Metropolitan Borough Councils (England)
- Unitary Councils (England)
- County and County Borough Councils in Wales
- London Borough Councils
- South Yorkshire Pension Authority
- Tameside Metropolitan Borough Council
- Wirral Metropolitan Borough Council
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