

PARLIAMENTARY DEBATES

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GENERAL COMMITTEES

Public Bill Committee

PUBLIC SERVICE PENSIONS BILL

Sixth Sitting

Tuesday 13 November 2012

(Afternoon)

CONTENTS

CLAUSE 9 agreed to.

CLAUSE 10 agreed to, with amendments.

Adjourned till Tuesday 20 November at five minutes to Nine o'clock.

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The Committee consisted of the following Members:

Chairs: MR JOE BENTON, † ANNETTE BROOKE

- | | |
|--|---|
| † Abrahams, Debbie (<i>Oldham East and Saddleworth</i>)
(Lab) | † Jamieson, Cathy (<i>Kilmarnock and Loudoun</i>) (Lab/
Co-op) |
| † Ashworth, Jonathan (<i>Leicester South</i>) (Lab) | † Javid, Sajid (<i>Economic Secretary to the Treasury</i>) |
| Burt, Lorely (<i>Solihull</i>) (LD) | † Jones, Mr Marcus (<i>Nuneaton</i>) (Con) |
| † Doyle-Price, Jackie (<i>Thurrock</i>) (Con) | † Leadsom, Andrea (<i>South Northamptonshire</i>) (Con) |
| † Evans, Graham (<i>Weaver Vale</i>) (Con) | † Leslie, Chris (<i>Nottingham East</i>) (Lab/Co-op) |
| † Freer, Mike (<i>Finchley and Golders Green</i>) (Con) | † McGovern, Alison (<i>Wirral South</i>) (Lab) |
| † Fuller, Richard (<i>Bedford</i>) (Con) | † McKenzie, Mr Iain (<i>Inverclyde</i>) (Lab) |
| † Gibb, Mr Nick (<i>Bognor Regis and Littlehampton</i>)
(Con) | † Paisley, Ian (<i>North Antrim</i>) (DUP) |
| Gilmore, Sheila (<i>Edinburgh East</i>) (Lab) | Williams, Stephen (<i>Bristol West</i>) (LD) |
| † Hands, Greg (<i>Chelsea and Fulham</i>) (Con) | Kate Emms, Neil Caulfield, <i>Committee Clerks</i> |
| | † attended the Committee |

Public Bill Committee

Tuesday 13 November 2012

(Afternoon)

[ANNETTE BROOKE *in the Chair*]

Public Service Pensions Bill

Clause 9

PENSION AGE

Amendment proposed (this day): 80, in clause 9, page 5, line 17, at end insert—

‘(d) those members of public service pension schemes to be exempted from the operation of subsection (1) as a result of scheme specific capability reviews.’—
(Chris Leslie.)

2 pm

Question again proposed, That the amendment be made.

Ian Paisley (North Antrim) (DUP): I just want to round up the comments I was making on the police service because they are relevant and important. The option of suggesting that police officers should move from front-line duty to backroom office duty towards the twilight years of his or her career is, actually, the most expensive option available. That is because at that stage a police officer is probably at the higher end of his salary grade, and that salary reflects the duties that he or she would perform on the streets. If the suggestion is made that an officer moving into a clerical office must have a pay cut to reflect the change in duties, it would be an even more controversial proposal—one that I would not make.

If the figures were to show that police officers should retire from their duties early, that would not prevent them from applying for jobs at a clerical level in the police service and, perhaps, even obtaining those jobs because of their wealth of experience as a police officer and therefore continuing to work on beyond their years served on the front line. That is not unique; it happens frequently in Northern Ireland. It is not without controversy, in some cases, but it does happen, and it saves the public purse a considerable amount of money to pay the different salary of a regular police officer who is summoned to do back-office duties. The pension contributions are also different, so we should consider the salary that an officer is paid.

The final point I want to make is on firefighters. The Government currently propose that all firefighters continue to attend fires in factories, homes and so on, and attend at serious terrorist incidents and road traffic accidents. We need to consider whether it is appropriate that a person in their 60s continues to do that job. At present, 24,000 firefighters—two thirds of them—are members of the firefighters pension scheme. For those firefighters, 55 is the age at which most will retire. As we know, firefighters perform a number of duties that include running, crawling, climbing, lifting, carrying ladders,

wearing breathing apparatus and all sorts of other things, and it is not credible to suggest that we should have an arbitrary date set at 60 if, after the review, there is evidence that shows that they should retire before that age.

The Fire Brigades Union made a point to me on the question of medical evidence. In a briefing paper that is available to Members, it said:

“The Government has provided no evidence that firefighters can work in an operational role—which means going out daily on a fire appliance to intervene in emergencies—until they are 60. Less than 1% of wholtime firefighters currently work beyond 55.”

The evidence to date shows that most firefighters retire well in advance of 60, but this amendment allows us to consider firefighters retiring before the age of 60 if there is proof in the review’s evidence. Of course, if evidence emerges that they are perfectly fit to retire at 60 or beyond, we have to accept that also, but the amendment gives the Government an option and flexibility. That is why it is a good amendment.

Richard Fuller (Bedford) (Con): It is a pleasure to follow the hon. Gentleman. If I may, I will make some points in response to what he said, and also address the amendment. He rightly pointed out the contribution of firefighters to public safety. To me, that is the core of what clause 9(2) is intended to do. I do not read the professions listed in it as necessarily being highlighted because of the physicality of the job, but because of the public service enshrined within those particular occupations. Such occupations are beyond public service and put people at risk in order to protect the public. Firefighters are the ones who run into burning buildings to rescue people. I heard on the news this week that many firefighters rescue cats up trees, which may well be true, but the core of what a firefighter is asked to do is to run into a building to save someone who is trapped and potentially to put their life at risk in doing so.

Similarly with the police force, they are the ones whom we ask to go into altercations between individuals or groups of individuals and put themselves at risk, as we have seen only too graphically in recent weeks. Finally, there are our armed forces, the very spirit of which is that the country is served first and the person second. That is the reason why successive Governments of different types and colours have recognised the different contribution that those three groups of public service workers make and why they are due additional recognition above and beyond other public sector workers.

Chris Leslie (Nottingham East) (Lab/Co-op): The hon. Gentleman says that those groups deserve recognition “above and beyond” that of others. Can I ask him about paramedics? Does he agree that paramedics often put themselves in the line of danger? How would he distinguish between paramedics and other such professions?

Richard Fuller: I would distinguish between them. I am drawing on the fact that the hon. Gentleman’s party when it was in office, previous Conservative Administrations and the coalition Government have all recognised that there are workers who, perhaps not routinely but certainly as a greater proportion of their service, will put themselves in physical danger and potentially put their life at risk in their day-to-day work.

I am not sure whether the statistics for paramedics would stack up, but my judgment is that they probably would not.

That really gets to the heart of why the amendment is not sensible. "Scheme specific capability reviews" seem vague. They may be somewhat defined in the working longer review within the NHS, but I am unaware of similar specific reviews in other areas. Including such a measure would set up expectations that neither this Government nor any future one would be in a position to fulfil. The reason why we are undertaking this whole review is because of not only fairness between public and private sectors but the affordability of public sector pension obligations. There is a significant question around the Government's ability to pay their own debts, let alone to meet their pension obligations, which stand on top of that.

Although Opposition Members suggest that the amendment may provide some flexibility, it will actually reduce certainty. We will go through another turn of the circle on public sector pensions, another review of what particular jobs should be taken account of for a particular retirement age, and another period of uncertainty for the public sector finance obligations, all of which is unwise.

Debbie Abrahams (Oldham East and Saddleworth) (Lab): Is this not one of the issues that we have discussed already? I totally agree about what the lack of assessment will do to those who may be affected by the Bill. However, we have data from, for example, the annual assessments of sickness at work and the different occupations affected by that, so assessment of such matters could be undertaken but has not been. The Opposition are just trying to say that such assessment should take into account the occupations within the public sector that will be detrimentally affected by virtue of their physicality.

Richard Fuller: I am grateful to the hon. Lady for that point. Perhaps we disagree, but there is an asymmetry in her approach to the public and private sectors.

Debbie Abrahams: No, there is not.

Richard Fuller: I am happy to take another intervention, but let me make my point first. If it is appropriate for us to assume that we should consider sickness days and other issues about physicality of work in the public sector, what would be the answer in the private sector? What would be the consequence of that for the normal retirement age? Does the hon. Lady suggest that we should have a normal retirement age that is subject to the same assessments of physicality and sick days?

Debbie Abrahams: The argument is against dumbing down, and that is what the Bill does. We would look forward to the Government bringing forward a pensions Bill that would ensure that the physicality of the work of private sector workers was also taken into account. We would look forward to debating that, but we are talking now about public service workers.

Richard Fuller: I appreciate that. I hope the hon. Lady will forgive me for saying this, but Opposition Members forget that there is no public money left.

We know that is the case, and it is as important as the Budget in how we determine our finances. Opposition Members must understand that the public finances were left in a parlous state. They can blame the bankers, but I think most rational people would also place blame on the previous Labour Government. However, that is a debating point.

The Government are trying to achieve certainty for public sector pensions. That is a noble objective which Members on both sides of the Committee seek to achieve. My concern about the hon. Lady's suggestion is that it layers uncertainty on top of uncertainty: uncertainty about the public sector obligation and now, potentially, uncertainty about the normal retirement age. The country's finances are not in a state where it is possible to have a serious debate about changing the normal retirement age to take various factors into account.

Chris Leslie: I am grateful to the hon. Gentleman for those comments. They clarify his view of the working longer review in the NHS. Under his Government it is meeting on a monthly basis. Lots of important people are getting together to think about how to approach the question of NHS staff. If the Bill will not reflect any outcomes of that review, not least for the resource reasons he has given, should the Government not just scrap the review now? What was the point? Does he oppose the working longer review? What is the point of continuing it if he opposes the amendment?

Richard Fuller: I appreciate that. I am not aware of the intimate details of the working longer review, but my assessment would be that it would say that as we move to a later retirement age we should identify which jobs within the NHS require a particular level of physical commitment. If those jobs are being performed by older people then we should find other jobs within the NHS family of responsibilities to which we can migrate them. That approach has been considered for firefighters, given the way in which the fire service works, and for other public service obligations. As my hon. Friend the Minister said earlier, any reasonable, rational employer will always look to maintain their most senior and experienced staff, because they are their most valued staff. They not only understand the job they do but have wide experience. Those are the reasons why it makes sense for the working longer review to go ahead.

Mike Freer (Finchley and Golders Green) (Con): I have just checked, and the working longer review met for the first time on 28 October and is not due to report for another 11 months. So is it not putting the cart before the horse if we change the Bill to reflect what the Opposition suggest the review will say? We should press ahead with the Bill and then reflect when we have had a review.

Richard Fuller: I am never really sure whether the cart goes before the horse or the horse goes before the cart in this type of case. As responsible holders of office, we need to look after the public finances, scrutinise what the Government do and push ourselves to an extreme of looking for flexibility and conditionality, as we try to resolve what is the largest bill that we will pass on to

[Richard Fuller]

future generations. The amendment would push us too far into uncertainty about the way in which the public finances and public sector pensions are being run.

In the evidence session, we heard from the teachers—I am not sure whether you were chairing that session, Mrs Brooke, but it is delightful that you are chairing this one now—who said how terrible the shift was for them, having to move from retiring at the age of 65 to retiring at the age of 67 or 68. I think they called themselves “strong union negotiators” on that point, and, as we know, there have regrettably been strikes by teachers on the issue of pensions. Do we really want to open up ourselves to those sorts of disputes, with all the implications for the well-being of the public, by keeping open the uncertainty? I think not, so I hope that the hon. Member for Nottingham East will withdraw his amendment.

2.15 pm

Mr Iain McKenzie (Inverclyde) (Lab): It is a pleasure to serve under your chairmanship, Mrs Brooke. I rise to speak on a matter that has not yet been discussed in this debate. Given all the talk of working longer and retiring late, we all seem to be of the opinion that we will live until a ripe old age of 100-plus. Although I wish that for everyone in this room, it is not the case across the country. I am talking about life expectancy and its relevance to a capability review that enables a person to continue the profession that they were engaged in when they were young, and about the length of their career.

Of course, life expectancy differs across the UK, from one end to the other. It comes as no surprise that Scotland is, sadly, at the low end of the table. On average, a male in Scotland lives to 75 and a female to 79. Pushing the retirement age out to 68 will not give them a good length of retirement. If they reach that average age, they can look at five years of retirement. In my constituency of Inverclyde, the figures are even worse. The average is 73 years for a male and 79 years for a female. Under the Government’s proposals, my constituents will get even less of a retirement. The truth is that many will not retire; they will die before they reach that age.

Graham Evans (Weaver Vale) (Con): I am listening with interest to the hon. Gentleman’s remarks about life expectancy in his constituency. Is not it a known statistical fact that people who are in work, and who have motivation, people skills and a need to get up in the morning to do a good day’s work, will live longer? Unfortunately, that is not necessarily the case if someone is out of work. What we are talking about here is people who are in well-paid, good quality jobs and who have a good standard of living. We are not talking about unemployed people, who do not live as long.

Mr McKenzie: The hon. Gentleman misses the fact that life expectancy depends on a number of issues, including how and where we live. Let me give a prime example of that. From one side of my constituency to the other, there is 10 years’ difference in life expectancy, which is based on the job that a person does, the life

that they lead and where they live. Because someone is in employment, it is not necessarily true to say that they can expect to live longer.

Graham Evans: I agree with the hon. Gentleman. We all have similar comparisons in our constituencies. Is the hon. Gentleman saying that a teacher, NHS worker or other public service worker in London or in my constituency has a 10-year difference in life span compared with one in the hon. Gentleman’s constituency? Is there a 10-year gap between workers in the south of England and those in the hon. Gentleman’s constituency?

Mr McKenzie: Again, I can only point to the statistics that say that that is genuinely the case. It depends on how someone lives and where they live. Obviously, the average across the country is very varied. From north to south, there is probably about 10 to 15 years’ difference in life expectancy. To put it into perspective, that 10-year difference in life expectancy means that some of my constituents who are in the public sector will never pull their pensions—quite simply, they will never retire. To retire at 68 will, if they are fortunate and live to 73, give them five years of that pension. A capability review would ensure that those in certain occupations would at least get the opportunity of a few extra years of retirement. We cannot stand up today and say that someone will be longer retired than they have ever worked, because that is clearly not the case up and down the country.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): Considering some of the jobs in my hon. Friend’s constituency, has he received any representations from the Prison Officers Association, given the lack of reference in the Bill to prison officers as part of the uniformed services? I know they are very concerned about their ability to continue at fitness levels.

Mr McKenzie: My hon. Friend makes a good point. I have been contacted by prison officers as I have a prison in my constituency. Theirs is a very demanding job and they are alarmed that they have not been included among the uniformed organisations to be considered for exclusion from the retirement age of 68.

It is not only reasonable to include the capability review in the Bill, but it is a requirement if we wish our constituents to enjoy the length of retirement they deserve, or to get any retirement at all.

The Economic Secretary to the Treasury (Sajid Javid): I thank the shadow Minister for his earlier comments. I also thank the hon. Members for Edinburgh East, for North Antrim and for Inverclyde, and my hon. Friend the Member for Bedford. I will try to respond to the issues that they raised.

I shall briefly remind the Committee of the reasoning behind the link that clause 9 establishes between a member’s normal pension age or deferred pension age and their state pension age. Linking the new pension ages to the member’s state pension age will manage the financial uncertainties associated with longevity changes over the long term, and was a key recommendation of Lord Hutton’s report. It is put into stark context by the fact that the average 60-year-old is now living 10 years longer than in the 1970s. While that is to be celebrated,

it would be irresponsible not to react accordingly to ensure that pension provision is sustainable for the long term.

The amendment would appear to allow largely undefined capability reviews to define groups of members whose pension ages will not be linked to the state pension age. As drafted, it would instead set their pension age at 60. The independent commission was clear that the work of police, firefighters and the armed forces is unique and that that should be reflected in their normal pension ages. That is why the Bill would allow members of those work forces to retain the pension age of 60 that was implemented by the previous Administration's pension reforms.

However, the uniqueness of those work forces is not just about physical demands or their duties. Pension schemes provide other benefits for those who are physically unable to continue working, such as ill health provisions. Importantly, nobody is being forced to work for longer. Members can choose to retire before their new normal pension age, and they will receive an actuarially adjusted pension to reflect the fact that their retirement benefits will be paid for a longer period.

The Government commend the work and commitment of all of the diverse work forces that make up the public service, but it is important to aim for consistency and commonality, unless there is a compelling reason to the contrary. The Government are confident that the pension age provisions are correct and, therefore, do not see the need to exempt any further members from the state age link as a result of future undefined capability reviews.

It is not clear from the amendment what the capability reviews are to involve, who will perform them or when they will take place. An unintended consequence of the amendment could be confusion and uncertainty about pension ages.

Alison McGovern (Wirral South) (Lab): I am listening to the Minister's argument, but I want to go back to its foundations and ask a simple, straightforward question. He says that the average age is increasing, but what questions did he ask his officials about what kind of average that is? Is it merely an arithmetic mean, or is it another kind of average?

Sajid Javid: When the hon. Lady refers to average age, is she talking about life expectancy?

Alison McGovern *indicated assent.*

Sajid Javid: I do not know what type of mean has been used, but if the hon. Lady believes that such information will help with her analysis, I can find out whether it is a modal or arithmetic mean, or a median, and I will let her know.

Many hon. Members mentioned the working longer review, which is being undertaken jointly by the UK Government, employers and health unions. The review is considering the implications of working longer for NHS staff, not the state pension age link itself. That is clearly explained in the review's terms of reference, and it is misleading to imply otherwise. As I have said, the link is one of Lord Hutton's key recommendations, and

it is set out clearly in the NHS proposed final agreement, which the majority of trade unions have signed up to. The agreement explains that if

“a member's SPA rises, then NPA will do so too for all post 2015 service”,

and the Bill provisions simply reflect that position.

Chris Leslie: That is rather confusing. If the working longer review, which is being undertaken for health service staff, recommends that there should be a different retirement age for certain categories of health service staff, and thus a differing from the link to state pension age, will there be the legislative means to fulfil such a recommendation? It is important that we are clear about that.

Sajid Javid: To be clear—this is important—let me restate that the review is considering the implications of working longer for NHS staff; it is not in any way looking at the link between the normal pension age and the state one. When the review was established, that was clearly set out in its terms of reference, from which I quoted earlier. The Bill does not prejudice or undermine the review. As the Government have said, whenever the state pension age changes, there will be regular reviews of the link. The link will already be established, but as the state pension age changes, meaning that the normal pension age should change as well, the Government will always ensure that the link is working as intended, including by taking into account any new information at that time.

Chris Leslie: The Minister is being generous in giving way, but it really is important that we understand this. If the working longer review recommends changes to the retirement age—perhaps an earlier retirement age for paramedics or another class of health service staff—by what legislative means can that recommendation be fulfilled? Under the Bill, those ages are all pegged to the state pension age, are they not?

Sajid Javid: The Government's intentions regarding the normal pension age for NHS workers and the link to the state pension age are clear. The working longer review is not looking at the link, so that link, which the Government have established, will not change. The working longer review is looking at a broad range of consequences of people working longer in the NHS, but it is specifically not looking at the link between the NPA and the SPA. If the hon. Gentleman would like a detailed copy of the review's terms of reference, I can supply him with one. I ask him to consider withdrawing the amendment.

2.30 pm

Chris Leslie: It was probably helpful that the Minister sent out a signal that those involved with the NHS working longer review will not be able to make recommendations about changes to the retirement age—as I understand it, that was essentially what he said. He characterised this in terms of the link to the state pension age but, whether there is a link or not, it does not sound as though it will be possible to change the pension age. I am not sure that the parties involved in

[Chris Leslie]

the working longer review are aware of that arrangement—that was not my understanding—so his statement might have a profound effect on that review’s discussions.

The aim of amendment 80 was not to split the link between the state pension and public sector scheme ages, but to allow us to look specifically at capability reviews, including the working longer review. It might have been helpful if the Minister had clarified whether the Government were considering carrying out others—it does not sound as though that is very likely—so that their findings could come to fruition through legislation.

When the hon. Member for Finchley and Golders Green intervened on the hon. Member for Bedford, he said that the amendment pre-empted any findings of the working longer review by stating that all those recommendations would have to come into effect.

Mike Freer: Will the hon. Gentleman give way?

Chris Leslie: Let me clarify this and then I will happily give way.

The amendment would simply pave the way for Ministers to put into effect any recommendations that arose within the ambit of the working longer review, including changes to the retirement age. It turns out, however, that the cart has been put before the horse, as the Minister says that we will not have any pension age changes through the working longer review and that is that. In a sense, the capability reviews seem to have been closed down.

Mike Freer: I said that Opposition Members were of the belief that the working party would recommend scheme capability assessments. If it is helpful to the hon. Gentleman, the remit specifically does not mention any recommendations to do with SCAs. It is concerned with evidence of the impact of working beyond 60, with good employment practice, and with the links between scheme flexibilities and the concept of total reward. That, not SCAs, was the remit of the working party.

Chris Leslie: I beg to differ from the hon. Gentleman’s point of view. Most people would assume that a “working longer” review would be able to take account of the retirement age of those concerned. If it is the Government’s view that the working longer review will do lots of things but it will not be able to affect the pension age, that is interesting, because it clarifies the picture for the participants. Perhaps their meetings will be a lot shorter than they would have been because that has been taken off the table. That is a shame, however, because hon. Members have mentioned circumstances, such as for paramedics or prison officers, when there might be good grounds for having capability reviews. Incidentally, if such capability reviews resulted in changes to the retirement age, that would not necessarily be more expensive to the public purse, because we heard in evidence that deals might have been done on the employee side in such a way as to ensure that they came within the Treasury’s acceptable cost envelope. This is not in any way about expending more taxpayers’ money—far from it. We are trying to tailor pension schemes that are appropriate to the circumstances and challenges of particular professions, some of which are more physical than others.

I do not believe that this crude approach is the right way to legislate. It is perfectly reasonable to table an amendment suggesting that we should leave the door open for reviews that are able to nuance retirement age provisions.

If the Minister had said he would accept the amendment but only with the caveat that it would cost the taxpayer nothing more, that would have been fine as, through the iteration of debate, we could have reached a flexible approach while keeping control on implications for the taxpayer. I urge the Minister to think seriously before Report about whether we want to close down employee-specific capability reviews, because I do not think that that is good for healthy negotiations and relationships with employees. We would be happy to look at different ways of wording an amendment.

The debate has included contributions from my hon. Friend the Member for Edinburgh East and the hon. Member for North Antrim, who has had to depart for debates elsewhere. My hon. Friend the Member for Oldham East and Saddleworth has also made several points about NHS staff. I believe that there is sufficient strength of feeling to test the view of the Committee on amendment 80.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 9.

Division No. 5]

AYES

Abrahams, Debbie
Ashworth, Jonathan
Jamieson, Cathy

Leslie, Chris
McGovern, Alison
McKenzie, Mr Iain

NOES

Doyle-Price, Jackie
Evans, Graham
Freer, Mike
Fuller, Richard
Gibb, Mr Nick

Hands, Greg
Javid, Sajid
Jones, Mr Marcus
Leadsom, Andrea

Question accordingly negatived.

Chris Leslie: I beg to move amendment 53, in clause 9, page 5, line 31, at end insert—

‘(4A) A person’s normal or deferred pension age under a scheme under section 1 will not change by operation of this section unless 10 years’ or more notice of the change has been given.’

Amendment 53 looks further through clause 9 at whether we need to ensure that sufficient notice is given of changes to the retirement age. It is important to ensure that the age at which scheme members can draw an unreduced pension will not change unless they are given at least 10 years’ notice of that change. The amendment is necessary because the Bill links a person’s normal or deferred pension age in public service pension schemes to their state pension age, but if that is changed in law, there is no protection for those approaching retirement and there are no safeguards regarding the notice that must be given of changes.

The Government recently imposed changes to the state pension age in a fairly arbitrary manner, when they gave women in their 50s only six years’ notice of the change to the pension age from 65 to 66 in 2020.

Members of public service pension schemes therefore have little security or certainty over the age at which they will receive their pensions. We cannot prevent the Government from acting in such an unfair way again in relation to the state pension age, but amendment 53 would ensure that even if they were to repeat that pattern of behaviour, and unjustly and unfairly increase the state pension age at such short notice again, public sector pension schemes would not suffer a similar knock-on effect.

We made that suggestion because when Lord Adair Turner carried out a review of state pensions for the previous Government, he recommended that there should be a 15-year notice period before changes were made to the state pension age. The Pensions Policy Institute, which gave evidence to the Committee, recommended a 10-year notice period. There was even some confusion among hon. Members on Second Reading, because the hon. Member for Gloucester (Richard Graham) said:

“The Bill...protects everybody who is within 10 years of retirement.”—[*Official Report*, 29 October 2012; Vol. 552, c. 114.] He was wrong; there is no protection in the Bill for those within 10 years of retirement. It is not clear whether that omission is deliberate or merely an oversight, or whether the Government are determined not to commit themselves.

It is important to ensure that people can provide for changing circumstances in the long term. It may be perfectly right to change the state pension age to reflect changing life expectancy, and it may be that that should naturally follow for public sector schemes, but is it necessary to make those changes with such short notice that members of such schemes—or, in the case of the state pension age, members of the public—might not have the opportunity to change their spending behaviour and the profile of their savings to prepare for what might be a drastically reduced income in retirement?

Debbie Abrahams: During the passage of the Bill that became the Pensions Act 2011, many women wrote to me in absolute desperation wanting to know how on earth they would be able to prepare for the future with so little warning. I cannot believe that we are creating a similar situation by not providing even the guarantees that the Government eventually gave about the state pension age—I was grateful that they had a change of heart. I find it difficult to understand why the Government are not putting protections in the Bill to ensure that similar alarm and upset does not occur.

Chris Leslie: My hon. Friend highlights the lost opportunity in the Bill. Such legislation does not come forward frequently, and we now have an opportunity to ensure that best practice is followed in future. It should not be beyond the wit of Government actuaries and others to ensure that if they make changes, they give sufficient notice. That would allow people to say, “I am 55 years old and I will be retiring at 68,”—or whatever age it will be—and then to work out what income they will need when they get to that age. It is good practice to give people 10 years in which to plan; in our view, that should be the minimum.

As we have seen with the state pension age, a six-year notice period causes tremendous problems. Women in their 50s suddenly found that the new pension age was

coming into effect. Government Members might say that it was only a one-year difference, and that people would have to work only one extra year—retiring not at 65, but 66—but someone who is given only six years’ notice that they will have to work an extra year will find their deferred wages and income in retirement affected considerably.

Graham Evans: Will the hon. Gentleman give us an idea of the difference in cost between 10 years’ notice and six years’ notice?

2.45 pm

Chris Leslie: I do not think that it would cost anything. We are simply talking about information for those who are facing retirement. If it is possible to predict—of course, it is—what is happening to basic life expectancy arrangements, it would surely be better to help individuals to prepare for their future income profile so that they have the opportunity to plan, and perhaps to spend less each year, in the knowledge that they will have less money when they retire later. They will have to work that bit longer and perhaps make arrangements with their employers and so on.

Given the scope of the Bill, we cannot make amendments to state pension provisions and we cannot talk about private sector pensions. If we are to make changes because of longer life expectancy—we might have to do that because we are fortunate that people in our society are living longer—a commitment to give 10 years’ notice of a change is a basic principle of fairness. If the Minister tells us that the Treasury believes that best practice will be to give 10 years’ notice for such changes, I will be relatively pleased. Much as we would prefer a commitment in the Bill, that would be a satisfactory step forward arising from our labours in Committee.

Surely the Minister understands that we have seen this happen before. Are we going to go to a notice period of less than six years? Will it be five years’ notice or four years’ notice, or will people on the verge of retirement suddenly find—bam—that they have another two years to go? I can imagine scenarios, crazy though that might seem, in which that could happen. It is therefore important that the Minister appreciates where we are coming from on the amendment. If it is possible for him to give us a commitment—even an aspirational one saying simply that the amendment reflects what would be best practice in an ideal world—that would be a good benchmark for him to set down. These things matter, and giving people notice so that they may plan is surely what we need to do in a modern society.

Alison McGovern: I rise to speak primarily about trust in government, of which this matter is a prime example. My hon. Friend the Member for Nottingham East rightly recalled the moving closer of the changes in women’s pension age, which caused great consternation and difficulty for many of my constituents. Some of them still speak to me today about how they are managing to resolve their financial arrangements. These women are not the wealthiest in our society. They have worked extremely hard throughout their lives and feel that they are part of a group who did not necessarily benefit, as I benefited, from the campaigns they led for women’s equality. They did not necessarily benefit, as I benefited,

[Alison McGovern]

from more forward thinking about the position in the workplace of women who are also bringing up children. They certainly did not benefit, as I benefited, from the general improvement in equality in society that we saw after the generation of women who were born in the '50s joined the workplace. It was of particular frustration and concern to these women that, at the end of their working lives, when they were planning for their retirement after many years of working hard and deciding how they could match whatever small personal or workplace pension they had managed to save with the state pension, the Government effectively moved the goalposts at the last minute.

My hon. Friend discussed Lord Hutton's comments about the appropriate amount of time that someone may need to plan for retirement—some 15 years—and I believe that he made that statement because he has instructed us to consider the length of time that financial planning can take. Just one year more really makes a difference.

I encourage Ministers to consider the realities of people's lives, and I do so because the women who spoke to me were, by and large, not the most senior or well-paid people in our society. They had worked hard all their lives in what used to be known, somewhat disparagingly, as women's types of occupations, such as nursing and teaching.

Mr McKenzie: Does my hon. Friend agree that some, if not all, of the women who approached her on this subject would have taken time out from employment to bring up their families? They were naturally concerned that they were given less time to make up that pension deficit.

Alison McGovern: My hon. Friend is quite right that that was often the case. A generation of women born in or around the '50s feel that this is yet another thing that is holding them back. One of them said to me that they are the women who fought for others and yet have not been taken care of themselves, so I ask the Minister to think about that.

I was pleased when the Minister answered my earlier question about averages, although I was less pleased that he was not able to answer it fully. He said that he had not asked officials what average was used in calculations on life expectancy, although I think that somebody may now be trying to pass him a note.

Why do averages matter? It does not take the world's greatest mathematical genius to work out that if some people at the top of the life expectancy distribution are living much longer, that could easily increase the average without improving the life expectancy of the vast majority of people in the middle of the distribution. I am not a Government Minister and I do not have officials to ask, so I do not know what the distributive effects are, but that gives us a sense of the importance of what we may be dealing with. It does not sit with natural justice to expect somebody who has not benefited from improvements in society to have to work longer because other people, whom they do not know and who do not live anywhere near them, are living longer.

We need to have a serious look at the question of averages, which has been at the heart of some of today's amendments. Unfortunately, those amendments were not accepted and were discussed in unglowing terms—I might have invented a new word—but this issue really matters because of the impact on people's lives. If we do not pay careful attention to some of the facts on the ground, we risk doing what the Government have already shown themselves capable of achieving: attacking people's trust in government.

If the public do not believe that we have their best interests at heart or that we are acting in a way that respects their need to manage their financial affairs, it cuts to the heart of why people have less trust in government than we would want. Why does that matter? In the case of pensions, it matters extremely, because we are asking people to invest for the long term, and if they think, "Actually, I don't want to get involved in that because I don't believe I will be better off in the long term," the whole system will fall down.

I encourage the Minister to think a lot more about trust in government. That matters more—or at least as much—in the world of pensions and the Government's involvement in pensions as it does anywhere else. People need to feel that we are giving them ample time to plan for their future and that the Government are acting in a responsible, careful way and paying attention to the reality of the lives of normal people in their everyday workplaces.

Sajid Javid: I am grateful to the shadow Minister for raising this important issue and I thank the hon. Member for Wirral South for her comments.

This amendment would provide a 10-year minimum notice period for changes to normal and deferred pension ages under clause 9. As the Committee will be aware, the treatment of normal and deferred pension ages in the clause is one of the Bill's key features. The clause links the normal and deferred pension ages in the new schemes to the state pension age. However, in recognition of the unique characteristics of their work, the normal pension ages for firefighters, police officers and members of the armed forces will be set at age 60, as we heard earlier.

As a result of improving life expectancy, the cost of providing average pension benefits for current employees is 40% greater than it was 50 years ago. The link to the state pension age is crucial to tracking and managing the longevity risk, and ensuring that costs do not spiral out of control again.

We agree that when normal and deferred pension ages change, there must be consideration of how such changes will impact on those who are most affected. Accordingly, we have done so in the new scheme designs, and in the Bill, by allowing for transitional protections. We set out that members who, on 1 April 2012, were within 10 years of their normal pension age will see no change in when they can retire or the benefits that they will receive. However, because of the intrinsic link to the state pension age, it would be inappropriate to provide for a minimum notice period for changes to the normal and deferred pension ages under the Bill. Members will be aware that the Government have committed to an automatic review of the state pension age to ensure it keeps up with increases in longevity.

A number of people who responded to the Department for Work and Pensions consultation on the single tier and state pension age highlighted the importance of giving people—specifically public servants under the Bill—enough time to prepare for future changes. My right hon. Friend the Secretary of State for Work and Pensions will bring forward details of the review of the state pension age in due course, but because we do not yet know how future changes to state pension age will be made, providing for a notice period in the Bill could undermine those considerations.

Let me be clear, however, that although the Bill does not provide for an explicit notice period, the Government place great importance on giving members of public service pension schemes time to accommodate change in their retirement planning. That plays a key role in increasing members' certainty and trust in their schemes, which is what these reforms are designed to do.

Hon. Members will know that Lord Hutton looked at this specific, important issue. When he discussed the link between the NPA and SPA with stakeholders, he said that there should be a "sufficient notice period" for members, but he deliberately made no explicit recommendation as to what that notice period should be. It is fair to say that he understood that there needs to be a degree of flexibility for the Government of the day so that they can work for the best interests of all concerned, including those taxpayers who could be affected if there were an unnecessary restriction on the notice period.

Chris Leslie: The Minister says that the DWP will be bringing forward changes to state pension age arrangements in due course, which is very welcome. Notwithstanding the flexibilities that he wants to enshrine in the Bill, will he at least put on the record that a 10-year period would be an ideal if it were attainable? I do not mind if he wishes to add a condition by saying that in certain circumstances it might not be attainable, but it would help very much if he could stick his neck out a bit and say that, ideally, we want to aim for a 10-year notice period.

3 pm

Sajid Javid: I genuinely meant what I said at the start, that this is a good debate to have; the amendment has initiated the debate, and I welcome that. As we have discussed before, this is a long-term, sustainable settlement, to last 25 years. Ideally, one would expect that the Government of the day would give as much notice as is practicable when the SPA link changes and there is a necessary change in the NPA. What we cannot do is bind a future Government completely to a specific time period. The Government are absolutely committed—as everyone would expect, but also as Lord Hutton said—to ensuring that there is a sufficient time period. However, I do not think it would be proper to say whether that should be 10 years, eight years or 12 years. It should be a sufficient period, but none of us in this room knows what the economic circumstances or other key factors may be many years from now. It would be inappropriate to have a fixed time period embedded and hard-wired into the Bill.

Chris Leslie: I accept the Minister's points. I am not saying that the only way to achieve this aim is to enshrine it in the Bill, and I am not saying that there will

not be some economic emergency that may mean that we have to break the goal of a 10-year period. All I am looking for is recognition that in best practice terms, in normal circumstances and with all else being equal, a 10-year period is desirable and so should be something that we are aiming for. Can the Minister give us that much?

Sajid Javid: The hon. Gentleman has picked a good example. As he knows, when the Government came to power they made some changes to pension ages quite quickly—the hon. Member for Wirral South referred to that. That was because of an economic emergency. There was, then, a good reason: in that economic emergency, the Government had to make a change and do so quickly.

I would first say, again, that it would not be appropriate for me to set a time period, even if it is only an aspiration. However, I would ask the hon. Member for Nottingham East to look at the transitional arrangements that have been introduced for people moving from old schemes into new schemes as a sign of the Government's commitment and intentions on this issue. I hope that will give him some kind of reassurance. In those arrangements, the Government have used a 10-year period, stating that they do not want to have a sudden impact on people who had made retirement plans and expected to retire at a particular date.

Mr McKenzie: Does the Minister agree that if he does not allow people the time to prepare for these changes, the Government will simply pick up the bill on the other side of retirement?

Sajid Javid: The hon. Gentleman is quite right that there needs to be a reasonable and sensible time period. However, I think he would also agree that if a future Government were faced with an economic emergency, as this Government were, and needed to act quickly but were too constrained, that also could pass on an unnecessary burden to taxpayers. The flexibility works both ways.

Mr Nick Gibb (Bognor Regis and Littlehampton) (Con): I listened carefully to the shadow Minister; does my hon. Friend share my concern that the hon. Gentleman and his colleagues appear to be content to tie the hands of Treasury Ministers in all kinds of ways? Combined with the rhetoric of shadow Treasury Ministers on other issues, that gives the impression that a future Labour Government would not take seriously the nervousness of the international capital markets about sovereign debt and the stewardship of the public finances. If there were ever the prospect of a Labour Government, we would run that risk. I do not sense that the Opposition take these issues as seriously as they ought.

Sajid Javid: My hon. Friend has a keen eye for such things and has been perceptive. He brings us back to why the Government are taking these reforms seriously. If some things had been done earlier, by the previous Government, maybe so many changes at one time would not have been necessary. Despite some of the rhetoric from the Opposition, there is a desire among all parties to work together to find a solution to this long-term

[Sajid Javid]

problem. We all value public sector workers and want to find a long-term, sustainable solution. I hope we can continue in that spirit.

Debbie Abrahams: The Minister has been very generous with his time. The Opposition recognise the constraints on including provisions in the Bill, but as a matter of principle could we not say that we want to give 10 years' notice of changes? No party wants to have our public sector workers living in poverty, and that is the implication if we do not give them adequate notice.

Sajid Javid: I agree with the hon. Lady that no one wants anyone to live in poverty. As to whether we could commit to a 10-year notice period, it would be inappropriate for the Government to give a fixed time. I would also ask Members to look at the transitional arrangements that the Government have put in the Bill for people moving from old schemes into new ones. They include a 10-year period, and I hope the hon. Lady can take some comfort from that about the Government's intention to have a substantial enough period for people to make preparations.

I ask the hon. Member for Nottingham East to consider withdrawing the amendment.

Chris Leslie: I think I am partially grateful to the Minister for his comments. He said that we should look at the 10-year period in the transitional arrangements and look at the Government's words about how they place great importance on robust planning. We tried to coax him out of his ministerial hidey-hole to give us a sense that he understands that a 10-year period would be ideal. He does not need to put it in the Bill if he does not want to, and if certain exigencies come along that mean he has to vary that rule, fair enough. There could be such circumstances. All else being equal, could we at least try to stick to that best practice?

It is such a pity and such a great missed opportunity for the Minister. Treasury Ministers have a lot of responsibility, and it does not just touch on public service pensions. They are also the individuals to make decisions about the state pension age. Let us face it, the Department for Work and Pensions is probably less likely to be doing that. Most routes lead back to the Chancellor of the Exchequer. The amendment provided a good opportunity for the Government to say that a 10-year period is possible, because that is good practice. That would have been a fairly cost-free thing for the Minister to have said. It would not have shaken the market. The hon. Member for Bognor Regis and Littlehampton seemed to think that the stock market would plummet any minute and that international bond yields would soar through the roof as a result of a commitment to a 10-year notice period on pension changes. [Interruption.] Honestly, if he wants to get wound up about public finances he should just take a look at the magic money tree that the Chancellor has just shaken to monetise the deficit with a £35 billion transfer. That is a far more concerning change, showing the smoke and mirrors nature of public finances. It is far more likely to undermine the confidence of the markets. But I digress, Mrs Brooke—it would be inappropriate to talk about the printing of money.

Richard Fuller: Will the hon. Gentleman give way?

Chris Leslie: As long as it is on topic.

Richard Fuller: As always, Mrs Brooke, I will attempt to be on topic and not stray too far. Has the hon. Gentleman looked at the impact of protecting members of a scheme who are within 10 years of retirement on the other members of the scheme? It is my understanding that a large proportion of the value of a pension is accrued later in one's service. What would be the implication for those just starting in the scheme? What would have to happen to their contributions to make up for that protection?

Chris Leslie: I genuinely do not believe that there need be any extra cost, because we are talking about giving people notice of changes to their retirement age. That proposal cuts across to non-public sector schemes as well. It cannot be beyond the wit of Government actuaries or others to make predictions about life expectancy and to make normal arrangements to control costs to the taxpayer and give people a 10-year notice period. I just do not believe that all of a sudden Government officials are flicking through their methodology and saying, "Cripes! If we don't make this change within four years, there will be major financial change", and arguing that they need to give scheme members limited notice to plan ahead for their future capabilities. I just do not believe that is the best practice going forward.

In the past, the Treasury has taken decisions to give only six years' notice. That has caused considerable difficulties for women in their 50s, as we have heard. But surely best practice would be to ensure that if we are to make changes, increase the pension age and so forth, we try to give 10 years' notice. That is all we are asking for.

Richard Fuller: I think we all would wish that the actuaries we employ in the public and private sectors had the 20:20 foresight that the hon. Gentleman wishes they had, making his amendment costless. I draw his attention to the public expenditure statistical analysis report, which looks each year at the accuracy of their predictions. It shows that between the Budget of June 2012 and the Budget of March 2011—so less than a year—there was a change in the cash flow cost of pension obligations of £600 million. So there is a cost to these measures, and it would be fair if the hon. Gentleman recognised that his amendment is not costless and that the cost would fall more heavily on those at the earlier stage of their careers.

Chris Leslie: With the greatest respect, the hon. Gentleman has got the wrong end of the stick about the purpose of our amendment. The Minister certainly made no such comments about the cost of aspiring to a 10-year notice period. We got him to say that it is important to be able to give scheme members as much advance notice as possible so that they can plan. That is the key thing the hon. Gentleman fails to grasp. It is important to help those ordinary members of the public who are public service employees and give them the ability to think ahead about their retirement.

I do not want to go around the houses too much on this amendment, as there are several others on the stocks. It is difficult to know what to do, but perhaps in

the spirit of trying to work together and to persuade the Government to do the right thing, I will seek leave to withdraw the amendment. We may wish to return to this matter later to see whether we can get a little bit more of a commitment from the Minister, even just verbally, that Government policy would aspire to a longer notice period. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

3.15 pm

Chris Leslie: I beg to move amendment 54, in clause 9, page 5, line 31, at end insert—

“(4B) The link between the state pension age and a person’s normal or deferred pension age shall be regularly and independently reviewed to ensure that the link remains appropriate in light of scheme members’ longevity.”

The amendment has arisen from Lord Hutton’s recommendation on page 94 of his report. The recommendation—again, in a shaded box—states:

“The Government should increase the member’s normal pension age in most schemes so that it is in line with their state pension age. However, the link between the SPA and NPA should be regularly reviewed to make sure it is still appropriate, with a preference for keeping the two pension ages linked”.

This is something that we believe that Lord Hutton looked into with great care, and it is something that we should put in the Bill.

Of course, the Bill implements one half of Lord Hutton’s recommendation: the first half, in relation to linking the normal and deferred pension ages to the state pension age. However, it fails to provide for a regular review into the appropriateness of that link and it fails to implement the recommendation in full. As Lord Hutton said in his report,

“the Commission’s recommendation is that as well as the link to state pension age being put in place, normal pension age should also be regularly reviewed by an independent body, to see if the link is appropriately tracking changes in longevity. The body would then make recommendations to the Government (either for each scheme or for the public service as a whole) on whether linking the normal pension age for public service pension schemes to the state pension age was still appropriate, and if not, what the normal pension age should be.”

To be as clear as possible, a regular and independent review into the state pension age link would help to ensure that public service schemes remained sustainable if life expectancies were to rise, as well as allowing flexibility in scheme rules if life expectancy decreased and scheme costs reduced, which is not inconceivable. Without such a review, the viability of schemes could be undermined by the rigid adherence to a link that does not necessarily take account of changes in longevity.

Of course, although many may assume that public sector workers are demographically of the same ilk, there are some public sector pension schemes that relate to a particular class of public service worker; we talked earlier, for example, about the physicality involved in certain professions. That link may become disconnected over time, because longevity is not the same for certain classes of workers as it is for the population as a whole. The genesis of this amendment, therefore, was the desire have some sort of ability to review that link while, again, trying to put some flexibility into the Government’s plans and implement the Hutton recommendations in full. I thought that those were the Minister’s policies,

given that the Government accepted the Hutton review, so I urge the Committee and Minister to agree to the amendment.

Sajid Javid: The amendment seeks to provide a review mechanism for the state pension age link, to ensure that the pension age provisions continue to track changes in their members’ longevity appropriately.

The Committee will be aware that Lord Hutton recommended, as the hon. Gentleman said, that the link be reviewed along with the normal pension age provisions for the fire, police and armed forces schemes, to which it does not apply. The Government accept the recommendation that these provisions should be reviewed, and we intend those reviews to be carried out as and when future changes to the state pension age are announced. The Government have already committed to an automatic review of the state pension age to ensure that it keeps pace with increases in longevity.

The automatic review should mean that the core principle of the amendment—to ensure the public service pension age provisions continue to track changes in members’ longevity appropriately—will happen automatically. More details on the state pension age reviews will be brought forward in due course. None the less, let me clarify why the Government have not put the reviews of public service pension age provisions in the Bill.

First, I firmly believe that the Bill’s provisions are correct. They are based on Lord Hutton’s recommendations, they are a vital step in protecting the taxpayer from escalating costs, and they are the basis on which agreements have been reached with the majority of trade unions. Secondly, as I have set out, the Government have already committed to reviewing the state pension age, which underpins the public service pension age provisions, to ensure that it keeps pace with increases in longevity.

In light of that, it is also sensible to wait for clarity on the timing and regularity of state pension age reviews before finalising the arrangements for reviewing public service pension age provisions. The state pension age reviews will apply to more than just the pensions established in the Bill, and it is important that the Bill does not restrict the flexibility to design such reviews. I therefore urge the hon. Gentleman to withdraw the amendment.

Chris Leslie: I think the Minister said that he did not want to put the suggested change in the Bill because the Government were going to make announcements in due course about how the review process would work, and because the Government accepted that reviews would take place. However, I cannot quite understand how, if a review found that the link was no longer appropriate, the link could be varied given the strictness with which it is set out. There is no caveat that says that such a thing can happen subject to ministerial discretion.

If the reviews come up with a particular recommendation at some point in the future—we know not when—that may mean a break between the state pension age and the pension age for certain public sector schemes. How would that happen? Would it really require fresh primary legislation? What if the recommendation affected only one category of public sector worker—perhaps the local government pension scheme or whatever? I do not quite understand how reviews can be accepted when there is an immutable, unchanging link set out in statute.

[Chris Leslie]

The Minister's answer was a bit confusing, and I do not know whether he can offer any possible help. It seems that this is another occasion where Lord Hutton made a recommendation that it would be appropriate to put in the Bill, at least in part, to give the Minister some discretion so that he has the capability to make such a change. The Minister will understand our concern, which came up during the evidence sessions. If he is able to tell us how such a change might be made in future when the statute is as clear as it is, I would be happy to give way to him.

Sajid Javid: The hon. Gentleman asks a good question. The Government are committed to a review whenever there is a change in the state pension age. The purpose of such a review is to ensure that the public pension schemes are working in the intended way and that the change in state pension age truly links the normal pension age to the longevity risks. How those reviews actually take place and how and by whom they are done will be set out, as we discussed, in the general review of state pension age by the Secretary of State for Work and Pensions. Any such change would have an effect beyond public service pensions, and it is important that it is looked at in totality.

The hon. Gentleman asked what would happen should some future review show that the link is not working in the intended way, thereby, as he said, requiring a change in the legislation. The Government do not anticipate that happening, but it would not be sensible for us to say that those reviews should not happen, and that, therefore, there is no need for any future changes, no matter what the outcome. If, for any reason, a future review suggested that the state pension age was not tracking longevity, as was intended in the Bill, it would require the Government of the day to make a change through legislation. That would require proper scrutiny and all the procedures that we would expect in Parliament.

Chris Leslie: I am grateful to the Minister for that. It seems a big step that any review changes, which might be for a small scheme, would require primary legislation. However, the more I think about it, although the amendment that I tabled would enshrine a review in the Bill, it could not affect that link to state pension age further along, as it simply states that a review would take place. There would need to be a provision in clause 9 to allow Ministers to break that link in such unforeseen circumstances.

I do not, therefore, want to push the amendment to a vote, because we need to think through properly the design of how that provision might need to work. It might be too much to suggest that we should have a whole new Bill to make one particular change. However, there must be some scope for a compromise that allows us to have a mechanism to work the disjuncture between the two into clause 9 somehow, for circumstances where a review—I accept that the Minister has given a commitment to those reviews, which is very welcome indeed—suggests a break between the SPA and the normal retirement age. At this stage, I am not clear how that might work, but this is one of those circumstances in which we want to give the Minister and the Government

a bit of latitude and flexibility. We need to keep thinking about how the system will work. I therefore beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

Sajid Javid: The clause establishes that a member's normal pension age or deferred pension age in the new schemes will be equal to their state pension age—the SPA—or age 65, whichever is higher. As I have said, that was a key recommendation of Lord Hutton's report and provides a vital protection against the costs of rising longevity. I should remind the Committee that recent increases in longevity have been significant, so it would be unsustainable not to seek to reflect that in pension provision. The Government have therefore committed to an automatic review of the state pension age to ensure that it keeps pace with increases in longevity. That review will be taken forward separately from the Bill. As a consequence, the state pension age link will protect the taxpayer from the increasing costs of public service pensions.

The clause also sets out that changes in the normal and deferred pension ages consequent on a change to the state pension age will be applied retrospectively to benefits accrued in the new schemes. That means that a change will affect the individual's entire accrued benefits under the new scheme, not just benefits accrued after the state pension age change. The clause does not affect benefits in the existing schemes. Again, this measure is crucial to tracking and managing the longevity risk, and ensuring that costs do not spiral out of control.

However, the clause sets out some exceptions to the state pension age link: in recognition of the unique characteristics of the work involved in their roles, normal pension ages for firefighters, police officers and members of the armed forces will be set at 60. Across the board, it is important to note that this clause does not force people to work longer than they wish to. They may still draw their pensions, actuarially reduced, earlier than the new normal pension age. All their benefits from the current scheme will be available, unreduced, from their current normal pension age. Those benefits will also be based on their salary at retirement or on leaving the scheme, not on their salary in 2015, when the current schemes close.

As we have discussed, the pension age provisions set out in the clause will be reviewed when changes to state pension age are announced, to assess their ongoing suitability in the context of state-funded provision across the UK. The state pension age review mechanism is under consideration, as was set out by the Chancellor in the Budget. It is sensible to wait for clarity on the timing and regularity of the state pension age reviews, as we discussed, before finalising the arrangements for reviewing the public sector pension age. None the less, I believe that the provisions in the clause are correct, and they are vital to getting a firm grip on the long-term sustainability of public service pensions. They are a fundamental step towards ensuring that we do not again end up in the situation we face now, whereby, as Lord Hutton correctly stated,

“the status quo is not tenable.”

3.30 pm

Chris Leslie: I have a short set of comments. We have had a long debate on the amendments to clause 9, and before I get into the other points that I want to make, I will ask the Minister my specific technical question so that he has time to consult his officials. Subsection (4) includes the words

“all the benefits (including benefits already accrued under the scheme)”.

It occurs to me that the Bill contains no definition of “accrued benefits”. That is a technical point, but it has caused some concern to other commentators who have spotted that the Bill provides no legal definition of accrued benefits. Is there such a definition elsewhere?

Pension age is one of the most important aspects of pension reform, but it can cause the most concern. Public service workers are right to be concerned about how the Bill reforms a member’s normal and deferred pension age, given the fairly arbitrary ways in which the Government have changed state pension ages in the past. The Bill represents a missed opportunity to give proper notice of changes in pension age, as we have discussed. There are several things missing from the clause, particularly regarding provisions that affect particular classes of public sector worker either because their longevity is not as long as the average, or because the physicality of their work causes them to want to retire earlier. The clause does not allow them sufficient flexibility.

That is a shame, because we all recognise that Lord Hutton was correct in wanting to put pension schemes on a sounder financial footing, and, broadly speaking, there is support for some of those findings. It would have been preferable if the Minister had been able to find a solution that accepted some of the concerns set out in the evidence sessions and during our deliberations on the Bill, as well as those expressed by Lord Hutton. I am not content that clause 9 is sufficient but I want to give the Minister the opportunity to return on Report with some of the improvements we have discussed, so I will not press the clause to a vote. I ask him to think carefully about those points, because they are some of our most serious concerns about the Bill. I hope that he will address them in the appropriate manner.

Debbie Abrahams: As my hon. Friend said, we recognise and have supported Lord Hutton’s recommendations. When he gave evidence, Lord Hutton also expressed his concern about the trust and confidence that needed to be re-established with the public and with public sector workers. The Government have argued that clause 9 provides important flexibility for them and for future Governments, but it seems to do so at the expense of public sector workers. I am disappointed that the Government were not able to do more—as I am sure that future Governments will have to do—to make scheme-specific capability reviews part of the process, because the proposals are too blunt an instrument. I am also disappointed that we could not even get on the record the importance in principle of 10 years’ notice of changes to pension age. That is so important. My hon. Friend the Member for Wirral South made a powerful speech on the issues experienced due to the change in state pension age.

We have heard that we will have an independent review of the link between the normal and state pension ages, but it will be set out later. The 25-year guarantee

that it has been stated that we will have—we have been told about the importance of notice for markets—will change. That brings us back to the importance of the confidence that needs to be re-established on public sector pensions. I do not feel that the clause—in the absence of the amendments—will do that.

Sajid Javid: Let me start by addressing the comments of the hon. Member for Oldham East and Saddleworth. She has genuinely considered the clause carefully and raised some thoughtful points, which I welcome. I have tried to give as much reassurance as I can on the fixed defined notice period—she mentioned 10 years again, as discussed on amendment 53—and the way in which the review would work. I appreciate that it is not what she wanted to see. I can see that she is genuinely concerned. I hope that the debate has helped and that some of the things I have managed to put on the record may prove helpful. I welcome her comments.

The main point raised by the hon. Member for Nottingham East was on accrued rights. He referred to subsection (4). He is right that there is no definition of accrued rights in the Bill. I have looked at that and considered it. It has proved difficult to try to define accrued rights. There are already differences in the old individual schemes and occupations; there will no doubt be differences in new schemes. There is naturally a certain flexibility to give to each scheme. If one looks at the police scheme versus the civil service scheme, there would already be differences in those schemes in what they would recognise as accrued rights. One concern I have is that, if we try to define accrued rights in the Bill, there is a risk of coming up with a definition that acts as a minimum. Without intending to do so, one might end up taking out some accrued rights from one particular scheme because a minimum definition had been provided. That clearly would not be the intention of providing a definition of accrued rights.

However, the hon. Gentleman made a fair point about accrued rights. I have considered it and I am still looking at that issue. As he rightly said, it came up in the evidence session; a number of people mentioned it. It is a genuine issue and we would like to see if there is a way to allay those concerns. It is not our intention to play with accrued rights. Everyone accepts the general principle that those rights must be protected where it is clearly defined that they have protection. Whenever we talk about them, we must be clear about how we would handle that. It is important that, when we look at this, we consider whether there is a way to come up with a definition that does not run the risk of excluding rights that are already there in certain schemes.

Question put and agreed to.

Clause 9 accordingly ordered to stand part of the Bill.

Clause 10

VALUATIONS

Sajid Javid: I beg to move amendment 8, in clause 10, page 6, line 7, after ‘section 1’, insert ‘which is a defined benefits scheme’.

The Chair: With this it will be convenient to discuss Government amendments 9 and 10.

Sajid Javid: The amendments clarify the application of clauses 10 and 11 to certain types of scheme that may be created under the Bill that are not defined benefits pension schemes.

Clause 10 provides for actuarial valuations to be carried out for the schemes created under the Bill. As currently drafted, the clause will apply to all schemes created under the Bill. They may include schemes other than defined benefits pension schemes, for example schemes to provide injury benefits or compensation for loss of office, or defined contribution pension schemes.

Actuarial valuations are not usually required for any type of scheme other than a defined benefits pension scheme. That is because other types of scheme do not pose the same risks to the employer in respect of provisions of benefit in the future. Amendment 8 will limit the automatic application of the clause to defined benefits schemes, so that actuarial valuations will not be automatically required for other types of scheme.

While actuarial valuations will not usually be required for schemes other than defined benefits pension schemes, there may be instances where the Government will wish to value other schemes, either by themselves or alongside the defined benefits pension scheme. Amendment 9 will allow for that to happen if that is necessary. It provides that the scheme regulations of other types of scheme, such as injury or compensation schemes, may specify that those schemes should be valued with a connected pension scheme if required. They do not have to do so, unlike defined benefits schemes.

Together, amendments 8 and 9 will remove any unnecessary provision for valuations of schemes that do not require them, but will allow for the flexibility to value schemes other than defined benefits schemes in cases where valuations are needed.

Amendment 10 refers to clause 11, which provides for the operation of the employer cost cap, on to which we shall come later. The mechanism has been set up to control costs, so that the risk that arises in defined benefits schemes can be properly managed over time. The amendment will make it clear that the provisions of the Bill that establish the employer cost cap mechanism do not apply to schemes made under clause 1 that are not defined benefits schemes. The employer cost cap will ensure that the cost of providing defined benefits pensions to public service workers remains sustainable. That type of provision is not necessary for injury, compensation or defined contribution schemes, which do not lead to the same kind of cost risks.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): It is a pleasure to have the opportunity to speak to these particular clauses this afternoon. I do not want to take up the Committee's time to any great extent with the amendments; amendment 10 is not particularly controversial, and I will not focus on it.

The Minister has explained to an extent why Government amendments 8 and 9 were tabled. It is, once again, important to have absolute clarity on the record, because the amendments anticipate schemes that are not defined benefits schemes either being created or being in existence under clause 1. I heard what he said about schemes for injury or compensation; that they will have to be dealt with alongside defined benefits schemes in some circumstances. Does he have in mind any particular

schemes? Have examples been brought to his attention in his research and discussion with different organisations that have meant that the amendments are important to include in the Bill?

3.45 pm

Sajid Javid: It is not about one or two particular schemes. There are certain professions, such as the police, firefighters and the armed forces, where, unfortunately, injury and compensation arrangements are more common. When the schemes kick in, if someone is getting a payment that is based on an injury scheme, there is no actuarial calculation involved in that. If they are injured and they meet the terms of the scheme, they will receive certain payouts and compensation. We simply wanted to ensure that the Bill worked as it was intended to, so that actuarial valuation would apply only to the defined benefit portion.

Cathy Jamieson: For the purposes of clarification, I think that people reading our debate in *Hansard* who were not au fait with all the technicalities would be concerned about ensuring that the provision would not reduce members' entitlements to payments under such schemes as the Minister has referred to. I think I hear correctly that that is not the intention, but it would be helpful to have that spelled out in plain language.

Sajid Javid: When the hon. Lady refers to "such schemes", I believe that she is talking about injury and compensation schemes. Her understanding is correct.

Amendment 8 agreed to.

Cathy Jamieson: I beg to move amendment 55, in clause 10, page 6, line 21, at end insert—

'(3A) Treasury directions under subsection (2) shall take into account the individual nature of each of the different funded schemes that make provision for local government workers.'

I will explain why we felt that it was important to table amendment 55. Having looked quickly at lunchtime over the papers that have become available since this morning's sitting, I believe I can anticipate the Minister's response. I believe that he will try to explain—I am sure he will do a very good job of it—why the amendment is not necessary. We tabled it on the basis of what we knew at the time, and we believed it to be important because many people involved in the local government pension scheme were concerned that clause 10 did not take account of the individual nature of each of the 89 different funded local government pension funds. There was concern that clause 10 would allow the Treasury to issue a single set of directions covering the valuation of all 89 local government funds.

As we have heard in the evidence sessions and in our debates, each local government fund has its own assets and its own investment strategies. Different employers are involved and, crucially, the demographics of each fund are different. The members of each scheme have different characteristics, some of which affect life expectancy. If valuations are to be accurate for each of the local government pension funds, we believe that Treasury directions must ensure that the individual characteristics of each fund are taken into account in the valuation process.

Significant concern was expressed about clause 10 in the evidence that was given to the Committee. Alison Hamilton, the chair of the local government committee of the Association of Consulting Actuaries said:

“Clause 10 certainly gives me cause for concern...It is very important that the valuation takes account of the local demographics, and the local investment of the assets backing those pension funds. I attended a meeting where the Bill team tried to give some sort of reassurance that the valuation would be carried out as a one-size-fits-all under Treasury directions. That was not intended for the local government pension scheme. I would like the Committee to explore that and get something drafted.”

Similar views were expressed by the representative from the National Association of Pension Funds, who said that local pension funds should be valued individually in a way that takes account of their differing features, again specifically referring to demography. She pointed out:

“Life expectancy is very different in Glasgow from Kensington and Chelsea, for example, and we have to reflect that in valuation. We would be very concerned if there was a one-size-fits-all approach. We do not think that the Bill adequately addresses that.”—[*Official Report, Public Service Pensions Public Bill Committee*, 6 November 2012; c. 169, 170, Q60.]

Bob Summers of the Chartered Institute of Public Finance and Accountancy echoed those sentiments:

“As everyone knows, life expectancy patterns depend on where you live. It is important that those local factors are reflected in local valuations.”—[*Official Report, Public Service Pensions Public Bill Committee*, 6 November 2012; c. 133, Q4.]

Amendment 55 was designed to ensure that Treasury directions would be tailored to each local government fund, because we wanted to ensure that valuations in that context were more accurate. I look forward to hearing what the Minister has to say, particularly about the information provided to us during the course of the day and whether my understanding of what it means in relation to the clause is correct.

Sajid Javid: The hon. Lady said that she was reading my mind and that she had anticipated what I might say. It is a useful attribute for a shadow Minister to have.

The current draft of the Bill makes provision for the Treasury to set directions governing the valuations of the new public service schemes, ensuring an important level of coherence and consistency between those valuations. It will codify in law the practice that has grown up around the valuations, giving clarity and certainty to all parties about the process that will be followed. I acknowledge that there is merit in the thrust of the amendment. When setting the directions, the Treasury will likely need to take into account the individual nuances and features of the various public service schemes, including schemes with a number of separate pension funds.

However, the drafting of the clause already allows the Treasury enough flexibility to ensure that its directions will account for the differences between the schemes. It is true that the local government pension scheme is different from the fully unfunded pension schemes. However, within the unfunded pension schemes, there are also differences and individual features. The Government do not feel that it would be right to attempt to legislate a requirement to take all of them into account. The amendment might also reflect Opposition concern that the Government intend to micro-manage the valuations

of individual funds within the local government scheme. I promise the hon. Lady and the Committee that that is certainly not the case.

I assure Members that the clause is intended to apply only to scheme-level valuations. In relation to local government, Treasury directions will relate only to valuations used to assess the aggregate costs of the scheme as a whole. On that basis, I request that the hon. Lady consider withdrawing her amendment.

Cathy Jamieson: I thank the Minister for that explanation. It is also helpful that he acknowledges that our amendment has some merit. It is a step forward from other occasions, when we have heard from him that he feels that our amendments are unnecessary or have not been drafted in the most helpful way. I appreciate that.

As I said, I was concerned to ensure that my understanding of the paperwork on the actuarial valuations of public service pension schemes, which has only just been made available to us today, was correct. I was particularly concerned to understand the part saying that for local government schemes, Treasury directions will provide the detail on how the model funds will be valued, because they will apparently be used to assess the affordability of the local government pension scheme as a whole. I am not entirely clear how those model funds will work. If the Minister has not been given the paperwork, it might be as new to everyone as it is to me. If he cannot give us some detail on that at the moment, I would certainly welcome the opportunity to hear more later. On that basis, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment made: 9, in clause 10, page 6, line 24, at end add—

‘() Scheme regulations for a scheme under section 1 which is not a defined benefits scheme may provide for actuarial valuations to be made of the scheme and any statutory pension scheme which is connected with it; and if they do, subsections (2) to (4) apply.’.—(*Sajid Javid.*)

Cathy Jamieson: I beg to move amendment 56, in clause 10, page 6, line 24, at end add

‘and with the written approval of the Government Actuary.’.

We tabled the amendment because clause 10 does not require the Treasury valuation of public service pension schemes to be carried out in accordance with any recognised standards of actuarial valuation. That is the position as we understand it but, as always, I will be willing to hear what the Minister has to say.

Subsection (4) requires the Treasury to consult the Government Actuary before making directions in respect of scheme valuations. However, it does not appear to require the Treasury to adjust any of its directions to take account of any advice or concern that the Government Actuary may express when consulted. The use of the word “consulted” always gives rise to concern, because does it refer to simply the need to consult and then carry on, or does it require account to be taken of the opinion or that the advice is looked at more closely? We believe that the amendment would help to ensure that appropriate standards were upheld in the valuation of public service schemes, because the Government Actuary would give written approval only to Treasury directions that met those standards.

[Cathy Jamieson]

The provision returns us to the issue of trust and how public sector workers can have confidence in the changes that are being made. They have expressed concerns about a provision that would, as they see it, give the Treasury unchecked powers to value their pension schemes, while not requiring those valuations to be in accordance with any recognised method of actuarial valuation or to meet any independent standards.

Accurate and reliable valuations of pension schemes are always important, but they become even more so when one considers the fact that scheme valuations under clause 10 will form part of the calculation of the employer cost cap under clause 11. Any inaccurate valuation or problems emerging from the process could result in an unfair cost cap that could, in turn, lead to members paying more contributions than they should, or perhaps having their benefits unfairly reduced.

We believe that the amendment would help to ensure that Treasury valuations met the requisite standards. If the Government want high standards of actuarial valuation for public service pension schemes, I hope that the Minister will put such an assurance on record, because that would persuade the scheme members. Perhaps he might also agree that the amendment has enough merit to be accepted—I doubt it, but I look forward to hearing what he has to say.

Sajid Javid: The hon. Lady made the comment that I had said that amendment 55 had merit—it did. The way in which she presents her amendments is far more convincing than that of the hon. Member for Nottingham East; she could teach him a thing or two.

Clause 10 requires the Government to consult the Government Actuary before setting directions to govern the valuations of the new public service pension schemes. That prudent approach is intended to give comfort to those affected by the valuation process that the Government will take appropriate actuarial advice from an authoritative source before establishing these directions. The amendment would go further by requiring the Government Actuary to provide written approval of the Treasury's directions.

4 pm

The amendment's intention is laudable, in that it is an attempt to ensure that the rules governing the valuations of public service schemes are based on sound actuarial principles, but it would markedly revise the role of the Government Actuary's Department in relation to public service pensions. GAD's aim is

“to be a highly valued principal provider of actuarial analysis and advice to all parts of the UK Government and other relevant UK and overseas public bodies”,

and it does that impartially. The amendment would alter GAD's role from an advisory one to one in which it could come under pressure to influence and set the directions. Under the Bill, that responsibility is rightly reserved for the Government, who are ultimately responsible for long-term spending commitments. Such a change of role could place undue pressure upon GAD that might be inconsistent with its role as a professional advisor, so I would hope that all those with an interest in retaining a trustworthy actuarial processes would wish to avoid that.

The rationale behind the hon. Lady's amendment is good—we all want to see the same outcome—but it could have the unintended consequence of putting pressure on the way in which GAD operates. It is an impartial advisor to this Government, as it was to the previous Government, and as it will be to future Governments. We should keep it that way and leave the final decision about how such advice is acted upon to the Government of the day. I therefore ask the hon. Lady to consider withdrawing the amendment.

Cathy Jamieson: I thank the Minister for his flattering comments, but I have been in politics long enough that I will never be persuaded by flattery. Nor would I ever allow his flattering comments to drive a wedge between me and my hon. Friend the Member for Nottingham East. He is not in the room at the moment, but I am sure that he will avidly read the report of our proceedings tomorrow and see that I have defended his honour.

I noticed that the Minister used the word “prudent”. It is always good to have that word on record, as all of us want a prudent approach to this issue. He also said that the amendment goes further than simply being laudable in intent and that it might have further consequences, but he seemed to agree with the principle of what the Opposition are trying to achieve. It is certainly not my intention inappropriately to put the Government Actuary under any pressure to do anything that is not in keeping with its role.

Given that the Minister feels that the Opposition have made some sensible suggestions, some laudable suggestions, and even some prudent suggestions, I hope that he will reflect on the amendment and perhaps even become persuaded to table a measure that reflects its tone and spirit at a later stage of the Bill's passage. On that basis, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause, as amended, stand part of the Bill.

Sajid Javid: Clause 10 provides for actuarial valuations of the public service pension schemes created by the Bill to be carried out, and that these valuations, which will be provided for in scheme regulations, should be carried out in accordance with Treasury directions.

Subsection (1) places an obligation on responsible authorities to provide for valuations in scheme regulations. Subsection (2) provides that these valuations will be carried out in a manner according to a timetable set by Treasury directions. Setting out the detail of the precise timing and methodology of valuations in Treasury directions will ensure that the process is transparent and consistent between different schemes. It is appropriate for this to be done by the Treasury because it has the oversight of, and ultimate responsibility for, public service pensions. As subsection (3) sets out, the directions may specify how and when a valuation is to be carried out, the time period that the valuations will cover, the data, methodology and assumptions to be used, and the matters that will be covered by a scheme valuation.

The clause also sets out that Treasury directions will specify how connected schemes, which will mostly be the existing schemes that this Bill reforms and any other schemes providing benefits to people who are also members

of the new schemes, will be valued together with the new schemes created under the Bill. Setting out the detail of how the valuations will be carried out together will be necessary to ensure that employer contributions are set at the appropriate rate and to allow for the operation of the cost cap.

I assure hon. Members that the clause applies only to scheme-level valuations. There has been some concern that the Treasury is seeking to make directions about the local fund valuations that are carried out for the funds that make up the local government pension scheme, but that is not the case. In relation to local government, Treasury directions will relate only to valuations that are used to assess the aggregate costs of the scheme as a whole. Treasury directions will also determine the time schemes have to make changes to the employer contribution rate to reflect the results of the valuation. The Treasury will be required to consult the Government Actuary before making any of these decisions.

Cathy Jamieson: I will not go over the specific points that arose from our debates on the amendments to the clause, but I was pleased to hear some of the things that the Minister put on record.

One of the points that has been raised by the various stakeholders who are worried about the Bill, and particularly about the scheme valuation under this clause, was the need for scheme valuations to take place at regular intervals. Obviously, regular valuations are a key aspect of good scheme governance, so I shall refer the Minister to some points that have been raised about that.

The Public and Commercial Services union has said that it would like to see scheme valuations undertaken at least every three years, although in some cases it feels that annual valuations would be appropriate. However this is done, the process has to be open and transparent. PCS has also made representations about the fact that what it saw as a failure to carry out a valuation in 2010 put its members at a disadvantage in the Hutton reform discussions. In addition, the written evidence to the Committee from the National Union of Teachers states:

“The NUT believes that clause 10 could be improved by including a requirement for quadrennial valuation of schemes. The current Teachers’ scheme regulations provide for a quadrennial valuation of the scheme, although in consequence of the proposals to change the public sector schemes the valuation of the Teachers’ scheme due as at 31 March 2008... has not been undertaken.”

People are looking to the future and saying that, when possible, they want to co-operate with the changes, even though they might not agree with everything that is being done. The NUT suggested in its evidence that it would like a binding provision that applies to all schemes to ensure that valuations happen as they should in the future. It will be helpful if the Minister responds to those points.

Although the paperwork that the Government have provided to us gives comfort in some areas that have already been discussed, while skimming through it, I was not immediately able to see any reference to the regularity or timing of the valuations. If it is there but I have missed it, it would help if the Minister could explain where to find it, because I would then be much happier to leave things as they are with this clause.

Richard Fuller: We have reached the provisions in the Bill on cost control. If I may detain the Minister and the Committee for a short while, I would like to make some points about that because it strikes to the core of the proposed amendments to public sector pensions.

Following the approval and negotiation processes that the Government have carried out with various trade unions and employee representatives in the public sector, there is broad consensus among all political parties on the public sector pensions proposals. I find myself standing somewhat apart from that consensus, not because I do not value the work of our public sector workers—I value them and cherish our public services—but because there are serious concerns about the affordability of the Government’s recommendations, which strike to the core of our consideration of valuations.

The context of the situation has two aspects, the first of which is the failure of the Treasury over the last 10 or 15 years to get a grip on the obligations piling up in our country in both the public and private sector. Over the past 20 years, this country has been unique in indebtedting itself. The nation’s total debt has risen since the mid-90s from two times the size of the economy, which is broadly the same as that of the United States, France and Germany, to five times—500%—the size of our economy. No other major economy has pursued policies in its public or private sector that have incurred such substantial debt.

Treasury officials are our trusted officials who are there to attend to the state of the public finances to ensure that the obligations that Her Majesty’s Government undertake are responsible and in the country’s best interests. The foundations for the Treasury’s assumptions have to rest on a prudent approach to finances. It was interesting to hear the hon. Member for Kilmarnock and Loudoun refer to the use of the word “prudent”. For many people in this country, hearing a Labour Front Bencher talk about prudence sends a shiver down their spines, because it was clearly under the previous Government’s imprudent management of the public finances that we became the most indebted major nation on earth.

Under clause 10, valuations are being put into the hands of the very same people—those Treasury officials—who managed the public finances over the period of that major indebtedness of our nation. I have spent my career working in relatively small companies rather than large companies, but one is aware of the concept of institutional group-think: if one grows up in a culture that has a particular way of doing things, it is hard to change one’s approach to those cultural norms. Given that the Government propose to put valuations in the hands of those Treasury officials, I wonder whether those officials have achieved a substantive conversion from their affection for indebtedness such that they can be true and fair guardians of valuations. I do not expect the Minister to ponder the culture of Treasury officials too much—that might not be a wise career move—but I think that that point is relevant to the clause.

4.15 pm

As members of the Committee are aware, the total public sector pension obligation is approximately £1 trillion, equivalent to £45,000 for each household in the UK. It is a substantial amount of money, around which valuations are going to be made. I will mention a couple of specific

examples that point to the tremendous sensitivity of assumptions that are made in such valuations and their impact on the public finances and therefore on taxpayers.

The Government say that the cost of pension obligations has fallen. The estimate of the liability in March 2010 was £1.135 trillion, and in 2011 it was £960 billion, which is a reduction of £175 billion. We have rightly focused on the change from the retail prices index to the consumer prices index as the main contributor to that reduction. However, there was another change. It was not a change in methodology but a change in assumptions, which accounted for 40% of the decline, or £69 billion, and it was an increase in the real discount rate. That is not a practical figure. It is not where one has changed how much one will pay in the future, it is just a change in assumptions. Why did the Treasury decide in 2011 to increase the real discount rate and achieve £69 billion of savings? Was that common practice for those in charge of private sector pension schemes that year, or for those looking at the value of private sector investments? Or was it an assumption dreamed up in the corridors of Whitehall in order to show progress in the reduction of obligations, which in future may need to be changed back?

Point 14 on page 5 of the 2012 fiscal sustainability report, which was published in July, talks about that £175 billion reduction. If I add £126 billion from the change to CPI and £69 billion from the change in the real discount rate, I get a figure that is greater than £175 billion. At some point, we will need to know what the countervailing moves were for the difference between £195 billion and £175 billion.

The changes in valuation assumptions are not just things that we have to concern ourselves with in the long term, but issues that impact us in the short term. I mentioned earlier, to give a vivid representation, the impact of missed assumptions on the near-term financial status of the Government. I am indebted to Michael Johnson, a research fellow at the Centre for Policy Studies, for his submission to the Committee, which I am sure everyone has read. It is document PSP 07, entitled “The Approaching Cashflow Crunch”. He draws our attention to the fact that the shortfall in public sector pensions is increasing. The shortfall in 2005-06 was £200 million. In 2011-12, it was £5.7 billion. That is an increase in the cash demand that has to pay for those unfunded obligations. In this fiscal year, that is money that cannot be paid for other public services that we would like to see.

There is an increasing shortfall in the amounts needed for the assumptions that we are making. If one looks at the difference between the assumptions in the 2011 public expenditure statistical analyses report and those in the 2012 PESA report, one sees that there is quite a widespread variability; a matter of £1 billion or £2 billion of cash this year. There is sensitivity in both the short and long term to the impact of such assumptions on the money we have available for our public sector services.

Will the Minister accede to the request made by Mr Johnson that the Treasury be more open about its assumptions? Will the Treasury make available different sets of projections that are based on alternative mixes of assumptions rather than purely a single base case? That will help people looking at the veracity of public sector

pensions obligations; it will enable them to look at them more wisely and more thoroughly, which is all to the good.

The assumptions that we make in this area affect the way in which we look at public sector debt. The obligations that we have in public sector pensions have a funny place in the estimates of public sector debt. They are not accounted for fully within the treaty definition of public debt, but they surely should be. The Government have to pay their pension obligations just as surely as they have to pay their creditors.

The fiscal sustainability report for 2012 helpfully explains what is and is not accounted for in the terms commonly used to describe the Government’s balance sheet, namely public sector net debt, public sector net worth and the whole of Government accounts. It is the latter definition that comes closest to measuring the many obligations that a Government can undertake on behalf of current and future taxpayers. Crucially from the perspective of this Bill, the whole of Government accounts, or WGA, differ from the public sector net worth estimates by including two items: contingent liabilities, which are not relevant here, and future liabilities incurred from past activities.

As the report itself says:

“WGA capture a wider, but still incomplete, range of the activities”.

What is missing, from the perspective of our pension obligations, is two categories of those obligations. One is “existing active future service”, which means the future service that existing public sector workers will provide in their public sector careers—[*Interruption.*] I can see that hon. Members are thrilled by my contribution, but I think this is important. This is the biggest amount of money that any hon. Member in this Parliament will pass on in any Bill. We are passing £1 trillion on to our children and grandchildren, as well as on to current taxpayers. It is really important that we get this Bill right. The clause gives the Treasury tremendous power in setting assumptions.

I am simply saying that after 13, 14 or 15 years of massive debts being racked up in our public sector, which has made us the most indebted nation on earth, the Committee should inquire about the assumptions that we are making and the powers that we are giving to our Treasury officials. I am sparing the blushes of the Treasury Minister because he is new in his post and does not know all those officials, and I do not want to burden him unduly with that responsibility. I know he is a true guardian of public probity in our finances.

Debbie Abrahams: I am interested in what the hon. Gentleman was saying about us being the most indebted nation on earth. For the record, would he care to inform the Committee as to what the public sector debt was, as opposed to the private sector debt, in 2008?

Richard Fuller *rose*—

The Chair: Order. Mr Fuller, I am sure you will remain focused on this clause.

Richard Fuller: I am very happy to provide the hon. Member for Oldham East and Saddleworth with the information she asked for, but I should be governed by

the Chair about how appropriate it is. I can have that conversation, and am more than happy to, but I do not want to stray too far from the point.

We have heard about this issue from the shadow Chancellor, who is still wrapped in the indebtedness of the past and contorted in his ability to stretch himself away from it. When we are looking at the obligations of the public sector pension liability, it is the indebtedness of the whole economy that matters. The private sector is where many of the taxpayers who will pay for these measures are active, so we have to look at the indebtedness of our nation as a whole when we are looking at the ability of our resources—from our public sector workers, our private sector workers, our entrepreneurs and our state employees—to create wealth so that the nation can pay for both the public services that we wish to have and the public sector obligations that we have already accrued in the form of pensions. I am happy to have a conversation about that with the hon. Member for Oldham East and Saddleworth, but I do not think that it is germane to the point that I am making on this issue.

I was talking about the category of “existing actives future service”, which is current public sector employees and the service they will give in the future. The whole of Government accounts also do not include future entrants. When the Minister talks about the employer cost cap under the next clause, I am sure he will come to the issue of why we are not including future entrants to public sector pensions in the employer cost cap. That issue is crucial for our assumptions of affordability. The two missing obligations account for 0.2 percentage points of GDP. That might not sound a lot, but it amounts to a heck of a lot of schools and a heck of a lot of nurses’ pay.

The second part of this is about not the assumptions in the short term but the assumptions in the long term, which I will talk about briefly. We are talking about very long time frames. Government projections go out 50 years to 2061-62. Even the most novice of financial modellers will understand how small changes in assumptions can have a significant effect on the long term.

Let me take a relevant example from the Government’s own calculations. The Government’s assumption when considering affordability in the context of a percentage of GDP, about which we have talked before, is that future growth will average, in the base case, 2.4% per annum. That seems fair in a historical context. If we take the 39 years from 1970 to 2009, there have been just about as many years with growth above 2.4% as there have been years with growth below 2.4%. From that, the Government get their projected GDP for 2062. However, if we take average GDP growth in those same years, 1970 to 2009, it was 2.16%. That does not sound like a lot but if it is projected out to 2062 we would have GDP 13% lower than it otherwise would be. That is £468 billion less that will be around to pay for these measures. There is a lot of hedging and variability in the assumptions; the Government accept that. The question, though, is on whose shoulders those assumptions, if they are too rosy, will fall. It will be on our future generations, which raises issues of fairness.

In closing, may I leave this thought with the Minister as he considers his reply? May I draw him back to the evidence sessions in which Angus Hanton of the Intergenerational Foundation said:

“The increase in longevity and the accounting flaws in the system mean that the obligations that are being passed on to

future generations are much more significant than the Treasury has presented. Also, the way it is set up, the younger generation takes the risk of economic growth not being as high as is hoped. You are creating asymmetry here. Public sector pensions are legally and contractually enforceable liabilities, and yet they depend on tax revenues that may or may not be adequate or up to the projections.”—[*Official Report, Public Service Pensions Public Bill Committee*, 6 November 2012; c. 133, Q5.]

I know that the Minister has come into politics and public life because he cares about ensuring that this country’s finances get on the right path. For the sake of future generations, about which other hon. Members have spoken, will he please assure us that he will be the fiscal conservative that we want? We want him to provide discipline in the Treasury as the evaluation is set up, so that the future assumptions will truly reflect the meaning of the word “prudent”, which, under the previous Government, came so far into disrepute.

Sajid Javid: Let me start with the questions from the hon. Member for Kilmarnock and Loudoun, and then I will come on to those of my hon. Friend the Member for Bedford. The hon. Lady asked about Treasury directions and the frequency of the valuations that might be carried out. Some have asked why the valuations could not happen every year. The answer is that that is unnecessary and too frequent. Valuations are a complex process. What typically happens is that schemes have a valuation every three to four years. It is the Government’s intention that the valuations are regular, and that they are carried out every four years for unfunded schemes and every three years for local government schemes. In today’s paper—I fully accept that hon. Members, including the hon. Member for Kilmarnock and Loudoun would not have had time to go through all the details in the papers released today—we talk about the matter a bit more in paragraph 1.21. I hope that that is helpful. Although we have set out the Government’s intentions, we have not written the matter into the Bill because it is important for any future Government to have a degree of flexibility.

4.30 pm

I shall now turn to the many points that my hon. Friend the Member for Bedford raised. To summarise, one of the main overriding sentiments he started with was about the long-term affordability of the Government’s proposals to reform public sector pensions and the fairness of those reforms. I do not want to stray too far from the clause, but the Government set out to make what can be fairly described as the most radical and far-reaching reforms to public service pensions ever attempted. The driving force is long-term sustainability, affordability and a large degree of fairness for everyone—not only the people receiving the pensions, but also taxpayers, including future taxpayers, who would contribute to the pensions.

I understand my hon. Friend’s point. It could perhaps be summarised as saying that the proposals the Government have put forward are still too generous, despite the radical reforms. Others have said that as well, and we heard a little of it in the evidence session, which he alluded to. The Government want to move forward with agreement with a majority of trade unions, stakeholders and others, and that has required necessary compromises along the way. We also want to find something that we truly believe is sustainable for a long period.

As well as the changes and our overall approach to pensions, public sector pensions and their cost to the state, my hon. Friend referred to figures the Government have already published: the whole of Government accounts and the estimates of the future cost of public pensions. He will know that the Government created the Office for Budget Responsibility to look at a lot of the financial assumptions that they make, to ensure that the process is independent and subject to scrutiny.

My hon. Friend raised a lot of issues, and I recognise that he is not completely satisfied—I think it is fair to say that—with the Government's approach. I hope that he accepts that the reforms are far-reaching and radical. When it comes to how much transparency, openness and information—the kind of information that he used correctly today—they can provide the public with in such situations, the Government are reaching out.

Lastly, my hon. Friend referred to the discount rate used in the whole of Government accounts in 2011—if I remember correctly—and the change in the discount rate. As someone who traded fixed-income bonds for more than 20 years, I can assure him that I fully understand discount rates, their impact and how they should or should not be determined. I cannot tell him in detail how this particular discount rate was determined, because a lot of complex calculations go into it. If he

would like more detail, I am more than happy to take a closer look at it and give him more information. The Government support such transparency.

My hon. Friend is right to point out that things such as discount rates and how they are used can have a huge impact on estimates of public finances. I think that he would agree that whenever such valuations are made, whoever makes them, it must be done in a robust way, so that everyone can have faith in them. That is why the Government Actuary's Department and Treasury officials work on this, and from what I have seen, they are very robust in their approach. It is fair to say that it is up to the Government of the day to ensure that all officials working on such calculations use the best information, in a continuously robust way and are always transparent about the information they use to make the evaluations.

Question put and agreed to.

Clause 10, as amended, accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.—
(Greg Hands.)

4.35 pm

Adjourned till Tuesday 20 November at five minutes to Nine o'clock.