Cabinet Secretary for Health and Wellbeing
Alex Neil MSP

T: 0845 774 1741
E: scottish.ministers@scotland.gsi.gov.uk

Mr Willie Duffy
Staff Side Chair of the
NHS Pensions Negotiating Group
Unison Scotland
Unison House
14 West Campbell Street
GLASGOW
G2 6RX

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Dear Willie

NHSScotland Pension Reforms

I would like to thank you and your staff side colleagues for meeting with me on 29 November. In my letter of that date I referred to the key messages in John Swinney’s statement to Parliament on 28 November and my understanding of their implications for the current discussions on reform of the NHSScotland Pension Scheme. At our meeting on Thursday evening I said I would write to you again to give as much clarity as possible on the scope for further negotiation.

If I can deal first with scheme redesign from 2015. You are aware of the UK Government’s position on Normal Pension Age and that we have no power in statute to deviate from that. As you also know, Scottish Ministers have taken a firm decision not to move money from elsewhere in the Scottish Budget to augment the financial envelope for the NHSScotland pension Scheme unless it is to match flexibilities agreed by UK ministers for the NHS Pension Scheme in England and Wales. For practical purposes this means that the elements of the Proposed Final Agreement for England and Wales, with the exception of the benefit structure (CARE) and Normal Pension Age, may be varied within the same cost envelope to produce a uniquely Scottish scheme.

The principal scheme features which could be considered in this way would include: normal early retirement terms; accrual rate; indexation in service, payment and deferment; commutation rate; dependant’s pension; death in service benefit and ill health early retirement terms. I understand that the STAC Negotiating Group has been provided with actuarial values showing how changes in these features could be offset against each other and I confirm that I will be happy to consider any proposals for flexibility of this type that the Negotiating Group might wish to make. If there is no interest in doing so, or if the Negotiating Group is unable to agree on specific proposals within a reasonable period, then the default position is that we would move to adopt a scheme that mirrored the Proposed Final Agreement in England and Wales.

St Andrew’s House, Regent Road, Edinburgh
EH1 3DG www.scotland.gov.uk
It is not possible for the Scottish Government to commit to funding ‘soft landing’ early retirement factors as an alternative to trading these within the cost envelope of the scheme. I would however want to emphasise the commitment of Scottish Ministers to match any future flexibilities agreed by UK Ministers for application in England and Wales. In respect of the NHS, this is most likely to happen via the Impact of Working Longer Group. As you know we currently have observer status on that group pending conclusion of negotiations in Scotland and I would be keen for Scotland to play a full part in its work as soon as possible.

At our meeting on 29 November I said that a further “Choice” exercise would be available to scheme members in Scotland after the terms of the reformed scheme are known. In this regard I would be content for the STAC Negotiating Group to discuss whether there might be grounds for extending this exercise beyond the particular groups indentified in England and Wales. If it is felt that there is a case for taking a different approach in Scotland I will be happy to give that careful consideration.

Finally, on the matter of employee contribution rates, you are well aware of my personal opposition and that of my Cabinet colleagues to the increases being imposed on us by the UK Government and I regret very much the burden that this is placing on NHS staff. If we fail to deliver the sums of money the UK Government is seeking the Scottish Government will be faced with significant financial penalties – in 2013/14 alone, £56 million would be lost to front line services in NHSScotland if we did not accept these increases.

We will very shortly have to begin a period of consultation on the increases due to be applied from April 2013 and this is likely to be based on the recently published Department of Health proposals. We are able to consider variations to the details but the Treasury will of course require the same overall amount of additional cash to be collected.

I am copying this letter to all members of the STAC Negotiating Group. I hope that collectively you will be able to use the clarity we now have to reach conclusions as swiftly as possible.

ALEX NEIL