

ROTHERHAM BOROUGH COUNCIL

REPORT TO CABINET

1.	Meeting:	CABINET
2.	Date:	22nd May 2013
3.	Title:	Local Government Pension Scheme Changes
4.	Directorate:	Human Resources

5. Summary

This report highlights the recently published proposals to change the Local Government Pension Scheme (LGPS) from April 2014 and seeks to receive any comments on the proposals and latest consultation.

6. Recommendation

Cabinet to note the details and estimated future cost pressures regarding the implementation of the new LGPS from April 2014.

Cabinet to receive the update on technical scheme regulation changes.

Cabinet Members to consider the proposals in respect of the new employee scheme and Elected Member pensions.

7. Proposals and Details

7.1 Background and Context

Changes to the Local Government Pension Scheme (LGPS) are not unusual with significant changes having been made over recent years such as in 2006 (Taxation changes), 2008 (tiered employee contributions & 60ths accrual).

As a result of changing demographics, where people are living longer and with the costs of providing pensions increasing, the government has now required that the scheme be required to deliver £900m of savings from the current and future costs of the pension scheme.

Colleagues will be aware that in order to help try and reach these required savings and meet the future challenges of providing a reasonable pension for retirement, a new scheme will apply from 1st April 2014. This will be a Career Average Scheme and apply to all 7814 members employed by Rotherham M.B.C. Various changes will apply to the new scheme rules covering accrual rates, contributions while certain specific protections are to be provided for employees within 10 years of their normal retirement date as at April 2012.

The main changes to the principles of the scheme already communicated to the scheme membership are set out below for information: -

A Career average scheme is to start from April 2014 replacing the current Final Salary Pension Scheme.

Increases to personal contribution rates are proposed in the region of 3.5% and up to 5% more for the very highest paid.

Employees would see the accrual rate improve to 1/49th as opposed to 1/60th and part time employees would pay contributions on actual earnings rather than current more expensive whole time equivalent salary approach. A '50-50' scheme is also to be made available that is hoped to reduce potential opt-outs from the scheme.

Contributions will also be payable on all additional earnings in future including non-contractual overtime and all additional hours that do not currently attract pension contributions.

Pensions for Elected Members could change with the following options now being consulted on: -

- i) No future access to the scheme (Government's preferred position);
- ii) Two-tier membership for 'Front-Bench' councillors i.e. Leader, or others with Special Responsibility Allowances;
- iii) No change (Continued access to scheme based on current arrangements).

Councils are asked to comment on which of the 3 options would be preferred or any other alternative proposals. Additionally if Councillors continue to have access to the pension scheme whether the proposed contribution rates would be acceptable

(minimum rate of 6% up to £21K pa; 6.5% for £21K up to £34K pa; other rates apply above these levels).

The future scheme is designed to reduce overall costs of the scheme to the Government is considered to give immediate additional cost implications for the Council. The proposal to include all earnings as pensionable based on an assessment of all current non-pensionable pay which totals approximately £5.7m per annum would then incur employer contribution costs of 12% on every pound earned. This includes all additional plain time hours and all non-contractual overtime (down from £2.3m in 2009 to £1.2m last year). If all this is deemed pensionable the Council could be faced with a budget pressure in the region of £500K per annum from April 2014. This figure could be affected dependant on Scheme membership behaviours on the advent of the new scheme. Colleagues could elect to 'Opt-out' or potentially join the '50-50' scheme which again would potentially reduce this estimated additional cost figure.

The Council has already agreed to apply the available Transitional Relief to defer the requirement to automatically enrol employees in to the LGPS and written to all 1992 affected employees to inform them that this would now take place in October 2017 rather than 1st March 2013. This action has had the result of deferring a potential extra cost of around £1.5m per annum if all of the 1992 non-members who were eligible joined and remained in the Scheme. Affected employees would still be able to 'opt out', but every 3 years Councils will be required to undertake a process to re-enrol them.

This action to defer automatic enrolment will also avoid the need for lower paid non-scheme members to pay their own personal pension contributions of a minimum of 5.5% on earnings, which in this climate would be a significant pressure for our lower paid employees not currently in the Scheme.

Teachers Pension Scheme covers some 2400 members and it was ultimately confirmed deferral was not allowed, so we have written to all current 47 non-members and automatically joined them in that scheme since March 2013. We are now receiving some requests from those Teaching colleagues to opt out.

In addition to the above we have now received further details for consultation that relate to a number of technical and administrative arrangements for which views are sought: -

The draft LGPS Regulations 2013 - Responses to be submitted by 3rd May 2013. South Yorkshire Pensions Authority has already responded on these mainly technical scheme management regulations.

The draft LGPS (Transitional Provisions and Savings) Regulations 2013 – Responses to be submitted by 24th May 2013, relating to membership, contributions and benefits,

The draft LGPS (Miscellaneous Amendments) Regulations 2013 – Responses to be submitted by 24th May 2013.

Proposals in respect Taxpayer funded Pensions for Councillors – Responses to be submitted by 5th July 2013.

South Yorkshire Pensions Authority has analysed the technical details on behalf of all scheme employers in respect of the first consultation and have provided all employers with a copy of their response. Other considerations are being compiled and will again be

shared with employers. Elected Members are invited to contribute any comments on the new scheme for referral to national employers.

8. Finance

The new 2014 Scheme is designed to save in the order of £900m across the whole country and membership. Local Councils are anticipating some reduction of current contribution rates over time (excluding funding of historical liabilities) subject to Actuary assessment of the impact of the new Scheme.

The potential implications for the current and future financial years are outlined in the body of the report.

In future all additional hours worked would be deemed pensionable and incur employer contribution costs of 12% on every pound earned. In addition Sleep-in payments, Standby, enhancements at weekends and night work etc would in future become pensionable. Based on current levels this equates to an amount of £5.7m per annum currently non-pensionable pay that will in future be pensionable. This would add a further £500K budget pressure from April 2014 onwards and so provision for this has now been included in the MTFs.

The action to defer automatic enrolment until 2017 is a mechanism to help the financial impacts of pension contributions and our actions have temporarily avoided a potential additional cost to the Council of an estimated £1.5m per annum. This has also avoided the need for lower paid employees to pay personal pension contributions of 5.5%, which in this climate would be a significant pressure for those lower paid employees not currently in the Scheme.

There could be some additional system development costs alongside indirect HR Service Centre costs / time spent working on implementing the required administrative requirements that had not been forecast nor planned.

Additional administrative costs may result in respect of administration undertaken on behalf of Doncaster Council for whom Rotherham MBC provide transactional HR & Payroll services under our new shared service operation.

9. Risks and Uncertainties

Concern has been expressed that proposed changes to the LGPS due to take effect from April 2014, may result in greater numbers opting out of the pension scheme.

Other payroll providers commissioned by schools would need to be able to cope with the new arrangements. Schools need to be satisfied that their provider would be able to cope with the complexity of this new arrangement.

10. Policy and Performance Agenda Implications

The provision of an attractive pension scheme is a key element of the Council's remuneration package which supports its ability to attract and retain staff.

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