Scrutiny Committee

Members of the Scrutiny Committee:

Mrs M Dewsbury (Chairman)
Mr T Lewis (Vice Chairman)
Mrs V Bell
Mr B McClenning
Mr K Weeks

(5 additional members to be appointed)

Agenda

Date
Wednesday 22 May 2013

Time
9.30 am

Place
Colman & Cavell Rooms

South Norfolk House
Long Stratton
Norwich
Norfolk
NR15 2XE

Contact
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South Norfolk District Council
Swan Lane
Long Stratton Norwich
NR15 2XE

Email: democracy@s-norfolk.gov.uk

If any member of the public wishes to speak on a non-confidential item, they may do so at the discretion of the Chairman

If you have any special requirements in order to attend this meeting, please let us know in advance
Large print version can be made available

15/05/2013
1. To report apologies for absence and to identify substitute members;

2. Any items of business which the Chairman decides should be considered as a matter of urgency pursuant to Section 100B(4)(b) of the Local Government Act, 1972. Urgent business may only be taken if, "by reason of special circumstances" (which will be recorded in the minutes), the Chairman of the meeting is of the opinion that the item should be considered as a matter of urgency;

3. To Receive Declarations of Interest from Members;
   (Please see guidance form and flow chart attached – page 4)

4. To confirm the minutes of the Scrutiny Committee meeting held on 10 April 2013
   (attached – page 6)

5. Pensions Reform
   (attached – page 10)

6. Scrutiny Work Programme and Cabinet Core Agenda
   (attached – page 16)
Working Style of the Scrutiny Committee

Independence
Members of the Scrutiny Committee and Overview Sub-Committees will not be subject to whipping arrangements by party groups.

Member leadership
Members of the Committees will take the lead in selecting topics for and in questioning witnesses. The Committees will expect members of Cabinet, rather than officers, to take the main responsibility for answering the Committee's questions about topics, which relate mainly to the Council's activities.

A constructive atmosphere
Meetings of the Committees will be constructive, and not judgmental, accepting that effective overview and scrutiny is best achieved through challenging and constructive enquiry. People giving evidence at the Committees should not feel under attack.

Respect and trust
Meetings will be conducted in a spirit of mutual respect and trust.

Openness and transparency
The Committees' business will be open and transparent, except where there are sound reasons for protecting confidentiality. In particular, the minutes of the Committee’s meetings will explain the discussion and debate, so that it could be understood by those who were not present.

Consensus
Members of the Committees will work together and, while recognising political allegiances, will attempt to achieve consensus and agreed recommendations.

Impartial and independent officer advice
Officers who advise and support the Committees will give impartial and independent advice, recognising the importance of the Scrutiny Committee and the Overview Sub-Committees in the Council’s arrangements for governance, as set out in the Constitution.

Regular review
There will be regular reviews of how the overview and scrutiny process is working, and a willingness to change if it is not working well.

Programming and planning
The Scrutiny Committee will have a programme of work, in conjunction with the Overview Sub-Committees. The Committee will agree the topics to be included in the work programme, the extent of the investigation to be undertaken in relation to resources, and the witnesses to be invited to give evidence.

Managing time
The Committees will attempt to conclude the business of each meeting in reasonable time. The order of business will be arranged as far as possible to minimise the demands on the time of witnesses.
Pensions Reform

HR & OD Manager

This report sets out the current position in relation to changes to Public Sector Pensions and Workplace Pension Reform, how they affect South Norfolk Council and how we are preparing for implementation.

<table>
<thead>
<tr>
<th>Cabinet member(s):</th>
<th>Ward(s) affected:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garry Wheatley</td>
<td>All</td>
</tr>
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</table>

Contact Officer, telephone number, and e-mail: Jackie Foglietta - 01508 533735 jfoglietta@s-norfolk.gov.uk

1 Purpose of Scrutiny

1.1 This report has been prepared to provide Scrutiny Committee with an overview of the changes to the Local Government Pension Scheme (LGPS) which come into effect in April 2014, as well as the implications for South Norfolk Council of the Pensions Act 2008; specifically its requirements in respect of auto-enrolment.

2 Scope of Scrutiny

2.1 The report covers changes to the LGPS and the requirements of auto-enrolment, which will affect all SNC workers, present and future. Members are asked to consider these and advise whether there are any specific actions they require Officers to take in preparation for implementation.

3 Public Services Pensions Bill

3.1 The Public Services Pensions Bill was published in September 2012 and is the underpinning legislation that supports the changes to pension schemes across the public sector, including that in operation for SNC employees; the Local Government Pension Scheme.

3.2 The provisions of the Bill are expected to result in a reduction in costs to the taxpayer and deliver sustainability of public sector pension provision over the longer term, whilst ensuring that the scheme remains among the best available for employees.

3.3 The Bill was given Royal Assent on 25 April 2013.
4 LGPS Reform

4.1 The effective date for implementation of the new LGPS regulations is April 2014, following a period of statutory consultation on the new benefit provisions which closed on 3 May 2013. This will implement the agreement between the Local Government Association and the Trade Unions reached in May 2012.

4.2 Among the key changes that the new regulations introduce are:

- Benefits will be based on Career Average Revalued Earnings (CARE) as opposed to final salary.
- Pensionable pay will include non-contractual overtime/additional hours.
- The rate of member contributions will be determined on actual pay, (currently contribution levels for part-time workers are based on their full-time equivalent pay).
- There will be greater flexibility, allowing members to elect to pay half contributions for half the benefits (the 50/50 option).
- Each member’s Normal Pension Age will be equivalent to their State Pension Age (minimum age 65).

4.3 With the conclusion of the statutory consultation process, the next steps are to ensure that the regulations covering protection arrangements for existing Scheme members are in place. In particular, this will mean that protected past service (i.e. benefits built up to March 2014) will be based as at present on final salary and a Normal Retirement Age of 65.

5 The Pensions Act 2008 - Auto-enrolment

5.1 The Pensions Act 2008 introduced a number of new employer duties in order to increase the provision of workplace pensions and encourage employees to save for their retirement. The date that these duties become applicable (the staging date) is determined by the size of the organisation. The staging date for South Norfolk Council is 1 November 2013, which is when we will be required to automatically enrol eligible "workers" into a qualifying pension scheme.

5.2 A worker is defined as any individual who:

- Works under a contract of employment (an employee); or
- Has a contract to perform work or services personally (i.e. they cannot send a substitute or sub-contract the work) and is not undertaking the work as part of their own business.
5.3 Employers are required to identify the types of workers they employ. There are two main categories:

- Job holders: eligible and non-eligible.
- Entitled workers.

5.4 Eligible jobholders for auto-enrolment are:

- Aged between 22 and state pension age; and
- Earning above the income tax personal allowance (currently £9,440); and
- Working in the UK.

5.5 Non-eligible jobholders (who do not need to be auto-enrolled but have a right to opt in) are:

- Aged between 16 and 21 or state pension age and 74; and
- Earning above the income tax personal allowance; and
- Working in the UK.

OR

- Aged between 16 and 74; and
- Earning above the lower earnings level (currently £5,668) but below the income tax personal allowance; and
- Working in the UK.

5.6 Entitled workers (who do not need to be auto-enrolled but have a right to join a pension scheme) are:

- Aged between 16 and 74; and
- Earning below the lower earnings level; and
- Working in the UK.

5.7 The provisions of the LGPS already mean that the majority of SNC’s employees are automatically enrolled into the Scheme on appointment, with no lower age restriction and regardless of their level of earnings. However, under the regulations as they currently stand there may be a small number of employees who would not be auto-enrolled, for example employees who do not have a contract of employment of at least three months.

5.8 The new provisions under the Pensions Act will place an additional and ongoing burden on employers generally, with the workforce needing to be assessed during each pay period to check whether they have reached a particular level of earnings and/or age that will lead to them needing to be auto-enrolled if they are not already active members of a pension scheme, in addition to the requirement to auto-enrol all eligible workers every three years.

5.9 Employers will also need to keep comprehensive records to show that they have complied with the Act as set out by the Pensions Regulator, as failure to do so could result in a fine.
6 Relevant Corporate Priorities

- Promoting a thriving local economy.
- Driving services through being businesslike, efficient and customer aware.

7 Implications/Risks

Financial - LGPS Reform

7.1 Currently 352 employees (85% of South Norfolk Council’s workforce) are members of the LGPS, with employer contributions for 2012/13 totalling £1,181,944. Changes to the definition of pensionable pay to include non-contractual overtime and additional hours will inevitably mean increased employer contributions.

7.2 Scheme changes and uncertainties may lead to more opt outs which would reduce costs in the short-term, but make the scheme less sustainable over time.

7.3 The triennial Valuation of the Pension Fund at 31 March 2010 set the employer contribution rates payable by employers for the three years beginning 1 April 2011. In setting the contribution rates it was agreed to apply an employer stabilisation mechanism, this means the current service cost is based on a percentage of pensionable payroll and a lump sum payable annually towards the pension deficit over the three year period from 1 April 2011 to 31 March 2014. This is in contrast to the 2010-1 employer contribution rate of 19.5% of pensionable payroll as illustrated in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Current service cost</th>
<th>Plus cash deficit recovery per annum (£’000)</th>
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<tbody>
<tr>
<td>1 April 2011 to 31 March 2012</td>
<td>15.0%</td>
<td>435</td>
</tr>
<tr>
<td>1 April 2012 to 31 March 2013</td>
<td>15.0%</td>
<td>484</td>
</tr>
<tr>
<td>1 April 2013 to 31 March 2014</td>
<td>15.0%</td>
<td>533</td>
</tr>
</tbody>
</table>

The most recent triennial valuation was 31 March 2013 which will set the contribution rates for the next three years from 1 April 2014. However the annual actuarial valuation for the annual final accounts 2012/13 indicates that it is likely that the deficit has increased due to falling real bond yields despite strong asset returns. In setting the contribution rates in the future the Actuary will take into account new legislation which has been passed.

In the medium term plan presented to Cabinet in February there is an assumption that the cash deficit annual sum will increase over the next three years.

7.4 Looking further ahead, changes to the State Pension Scheme will eventually mean that the current contracting out arrangement for members of the LGPS will end, meaning increases in National Insurance contributions for both employers and employees.
Financial - Auto-enrolment

7.5 There are likely to be costs associated with the potential increased take-up of pension scheme membership, resulting in increased employer contributions but, due to the uncertainty of how many employees will remain enrolled following auto-enrolment, it is not possible at present to estimate this additional cost.

7.6 Legal

South Norfolk Council has a legal obligation to comply with both the changes to Local Government Pension Scheme regulations (under the provisions of the Public Services Pensions Bill) and the requirements of the Pensions Act. It is however anticipated that, as at present, within the framework of the regulations individual employers will have the option to exercise various discretions, for example in respect of awarding additional pension and/or membership or early payment of pension.

7.7 Equalities

The Pensions Act is specifically designed to promote equality of access to an occupational pension scheme for everyone working in the UK aged 16 to 74.

8 Preparing for Implementation

8.1 SNC already promotes the benefits of the Local Government Pension Scheme to prospective, new and existing employees through its recruitment and induction processes. We also plan to inform employees of the value of the Scheme as part of their total reward package.

8.2 Details regarding changes to the Scheme have been and will continue to be published on eLink and the Norfolk Pension Fund, as SNC’s Scheme Administrator, has written to all existing members advising them of the changes and will be doing so again later this year as they issue members’ Annual Statements.

8.3 With regard to auto-enrolment, there are a number of actions planned in preparation for implementation:

- Payroll will conduct an audit of all employees to identify those not currently members of the LGPS who will need to be auto-enrolled from 1 November 2013.

- We will be writing in the Autumn to all employees not currently in Scheme membership to advise them of the requirements regarding auto-enrolment and how this will impact on their personal position.

- We will be reviewing our payroll processes to accommodate the new regulations, including the requirement to auto-enrol all employees every three years.
• We will review our employment documents (in particular contracts of employment), to ensure that all employees are aware of the auto-enrolment provisions on appointment.

• Importantly, as part of the current review of our HR and payroll systems, we will need to ensure that the ability to meet the requirements of auto-enrolment is a prerequisite for our preferred solution.

9 Action Required

9.1 Members are asked to note the content of this report and advise whether they wish Officers to take any specific actions not as yet identified.