

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Pension Fund Panel
Date:	7 June 2013
Title:	Councillor access to LGPS
Reference:	4930
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1. Summary

- 1.1. The purpose of this paper is to provide the Panel with the background to, and observations on, the Government's consultation on removing councillor access to the Local Government Pension Scheme (LGPS) from April 2014.
- 1.2. The Panel is asked to form a view on the consultation in order for a response on behalf of the administering authority to be submitted.

2. Background to the consultation

- 2.1. In December 2012, the Local Government minister made a written ministerial statement to Parliament setting out the Government's proposals to remove access to the LGPS for councillors from 1 April 2014.
- 2.2. Following representation from the Local Government Association and other bodies, the Government has reflected on whether a consistent approach should be taken with other locally elected office holders (specifically elected mayors and members of the London Assembly). Police and Crime Commissioners are not subject to the consultation as their right to access the main LGPS has already been agreed as part of their terms and conditions.
- 2.3. The Government has issued a statutory consultation setting out three options whereby councillors and locally elected office holders may, or may not, access the new LGPS:
 - Option 1. No access to the LGPS from 1 April 2014 through being directly elected to local office
(councillors, elected Mayors and members of the London Assembly would be excluded from active LGPS membership)
 - Option 2. Two tier membership – continued access for 'front bench' councillors only

(This could include just elected Mayors, elected leaders or those with special responsibility allowances etc)

Option 3. No change – access to the LGPS for councillors after 1 April 2014.

2.4. The consultation document requests answers to three specific questions:

1. What option is preferred and why?
2. Do you have any alternative proposals on councillors and other elected officer holders access to the Scheme?
3. If councillors continue to have access, do you agree that the contribution rate should be changed in line with the rest of the LGPS, with a floor limit of 6%?

2.5. The full consultation document is attached as Appendix 1 to this report.

3. Current access within the Hampshire Pension Fund

3.1. Councillors currently access the LGPS under retained provisions from the 1997 LGPS regulations, with:

- a contribution rate of 6% on pensionable allowances
- a 1/80th accrual rate for annual pension, based on career average pay
- an automatic tax free lump sum of 3/80th of career average pay.
- a death in service benefit of 2 x career average pay

When the new look LGPS came into effect in 2008, councillors continued membership under their existing provisions. This means that the accrual rate did not change to 1/60th nor did the death in service benefit increase to 3 x pay. The contribution rate remained at a flat 6%, rather than moving to tiered rates according to pay, which was the case for employees from April 2008.

3.2. Individual authorities have the discretion to allow councillors access to the LGPS. Out of the 14 local authorities in the Hampshire Pension Fund, nine authorities have allowed access for their councillors. The authorities are listed in Appendix 2.

3.3. Of the 215 councillors eligible for access, 141 have chosen to join and are actively contributing to the LGPS. There are also 41 pensioner members and 42 councillors with deferred benefits in the Fund.

3.4. The average annual pension paid to a councillor is £820 (compared with an average pension paid across the Fund of just over £4,000 a year).

3.5. All councillors currently pay a 6% contribution on their pensionable allowances. If the councillor contribution rates were changed in line with the main scheme LGPS employee contribution rates, 127 councillors would continue paying 6% as their allowances total less than £21,000. The remaining 15 councillors would fall into the 6.5% contribution rate band.

3.6. Councillor pensions are based on career average pay, rather than final salary as under the main scheme regulations for employees. The reason for this is

that career average is more suitable for people with fluctuating earnings, and who may have only a short period of membership in the scheme.

4. Considerations

- 4.1. The cost of the councillor scheme is assessed as part of the triennial valuation alongside the main scheme. Contribution rates for authorities are set such that the liability to pay pension benefits can be met from the total of councillor and authority contributions and returns on investment.
- 4.2. As councillor pensions are funded by individual authorities and individual authorities already have the choice to restrict access for their councillors, the driver for the removal of access to the scheme at a national level does not appear to be financial.
- 4.3. The Government's stated reason for removing access is based on the premise that councillors are volunteers and allowances should only be provided to cover out of pocket expenses. In the consultation the Government states that over time, allowances have become seen as a form of salary, a position which the Government fears is exacerbated by allowing access to the LGPS. The Government states its belief that this has a negative impact on local democracy and the independence of councillors to represent their communities.
- 4.4. The choice between options 1 and 3 in the consultation is therefore a matter for the Panel, depending on views held over the use of public money and the role of councillors. Authorities are already free to make the choice at a local level as councillor access to the LGPS is at the discretion of each individual authority.
- 4.5. Option 2 potentially creates an artificial difference between councillors in London and councillors in the rest of the country. It is hard to see what case can be made for excluding some, rather than all, elected local office holders. However there may be a rationale for this approach if objective criteria can be established as to who is and is not eligible.
- 4.6. The new LGPS from April 2014 will be based on career average pay rather than final salary. Consequently there is no rationale for continuing to have a separate councillor scheme as the calculation of pensions for all members will be made on the same basis. To keep separate provisions after April 2014 only increases the administrative burden on authorities, which could end up costing the taxpayer more.

5. Consultation

- 5.1. The consultation document was forwarded to the Chief Finance Officers for the district and unitary authorities in the Fund. Authorities were encouraged to ask their councillors to respond directly to DCLG or to feed comments back for inclusion in this report for consideration by the Panel.
- 5.2. Four responses have been received back from councillors. Three respondents felt that councillors should retain access, one did not. The response which supported the Government's proposal to remove access

suggested there should be an exception for councillors whose role meant they were unable to take any paid employment, because of the hours they spent in their role.

6. Conclusions

- 6.1. Authorities are already free to grant or remove access to the LGPS for councillors under existing regulations.
- 6.2. The choice between the options in the consultation document is a matter for the Panel.
- 6.3. Option 2 would create a differential in the pay and conditions for some elected local office holders.
- 6.4. From April 2014, the main LGPS will be based on career average pay, so it would be more efficient for councillors to join the main scheme rather than continue to have special provisions, if access is continued.

7. Recommendations

- 7.1. It is recommended that the Panel form a view regarding the consultation.
- 7.2. If option 3 is preferred, it is recommended that the Panel agrees that the consultation response suggests that councillors move to the standard provisions of the new 2014 LGPS scheme.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

This proposal does not link to the Corporate Strategy but, nevertheless, requires consideration to inform the Pension Fund Panel about the progress on implementing the new LGPS 2014 pension scheme.

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.