

PERTH AND KINROSS COUNCIL**Strategic Policy and Resources Committee – 13 February 2013****WORKPLACE PENSIONS REFORM – IMPLEMENTATION OF AUTO ENROLMENT****Joint report by the Head of Human Resources and Head of Finance****ABSTRACT**

This report provides an update to the Strategic Policy and Resources Committee on the implications of the Pensions Act on the way in which employees' access pension schemes. It further outlines the implementation plan for the Council's staging date of 1 May 2013; and advises of transitional and postponement options available to the Council.

1. RECOMMENDATIONS

1.1 It is recommended that the Strategic Policy and Resources Committee:

- Note the implementation of auto enrolment on 1 May 2013 (The Council's staging date).
- Agree the implementation plan for the Council's staging date (attached as Appendix 2).
- Agree the utilisation of the "transitional period" and "postponement" for certain workers/employees.

2. BACKGROUND

- 2.1 Changes to the pension law, as a result of the Pensions Act 2011, will affect all employers with at least one worker in the UK. From October 2012 the new pension legislation introduces a number of new employer duties in relation to the automatic enrolment of eligible workers into a pension scheme by their allocated staging date (The date at which the new legislation comes into effect for a particular employer). Auto enrolment is being phased in over a number of years until 30 September 2017. It has been confirmed by the Pension Regulator that auto enrolment does not apply to Elected Members.
- 2.2 Employees of Perth & Kinross Council are currently able to join the Local Government Pension Scheme (Scotland) (LGPS) or the Scottish Teachers Superannuation Scheme (STSS). Perth & Kinross Council has a number of partner organisations, processed through the payroll, which will also be affected by these changes.

- 2.3 Under the new legislation, all existing and new employees must be automatically enrolled into a qualifying pension scheme from 1 May 2013 if they meet the following criteria:

- Are between age 22 and State Pension Age (SPA), and
- Have “qualifying earnings”/pay of over £8,105 per year (new figures will be announced in November for 2013/2014)

Eligibility

Category of Worker	Age	Employer Requirement
Eligible Jobholder	22 to State Pension Age	Auto enrol and pay employer contributions
Non-eligible Jobholder	16 - 22	Enrol employee on request and pay employer contributions
Non-eligible Jobholder	State Pension Age to 74	Enrol employee on request and pay employer contributions
Eligible Jobholder who opts out	22 to State Pension Age	Enrol employee on request and pay employer contributions
Entitled Worker (no qualifying earnings)	16-74	Enrol employee on request. No employer contributions required

- 2.4 Where employees have multiple contracts, they are required to be auto enrolled into each contract individually. As at October 2012 the Council had 7446 contracts, 1083 of these contracts have opted out the LGPS Scheme and 172 have opted out the STSS Scheme. Appendix 1 outlines this in more detail.
- 2.5 Under the new legislation the definition of “qualifying earnings” includes basic pay, overtime and statutory sick, maternity, paternity or adoption pay. (This differs from the definition of pensionable pay under the pension scheme regulations which excludes non-contractual payments).
- 2.6 The current Local Government Pension Scheme (Scotland) Regulations 2008 does not allow for employees with a contract of less than 13 weeks, or employees who are over the age of 75 to join the scheme. This conflicts with the new Pension Act 2011 for LGPS and regulations are to be amended by the Scottish Parliament by February 2013.
- 2.7 In order to implement automatic enrolment effectively and to achieve a consistency in approach, the Council has HR and Payroll membership on a Scotland wide group, chaired by South Lanarkshire Council.

3. IMPLEMENTATION

Staging Date

- 3.1 The staging date is the date at which the Employer Duties in relation to automatic enrolment apply. This date is determined by the Pensions Regulator, and is driven by the number of employees within the organisation's PAYE scheme at 1 April 2012. Based on the assessment on 1 April 2012, the staging date for Perth & Kinross Council is 1 May 2013.
- 3.2 Some of the Council's partner organisations are not admitted bodies, as defined by the Pensions Act 2011, therefore will be required in future to provide pension provisions. The Council's partner organisations are as follows:

Partner Organisations	Admitted Body	Staging Date	No of Employees	LGPS Member
Heritage Trust	No	1 January 2017	4	N/A
Countryside Trust	Yes	1 January 2017	7	7
Quality of Life	No	1 February 2017	1	N/A
Real Nappy Network	No	1 October 2016	2	N/A
TACTRAN	Yes	1 June 2016	6	6
Hope Park Trust	No	1 March 2015	57	N/A
Total			105	13

- 3.3 The Council can choose an earlier than planned date or defer implementation by up to three months. However, the Council is working towards the planned staging date of 1 May 2013. In addition the Council can choose to utilise the options of a transitional period and postponement.

Transitional Period

- 3.4 The option to use a "transitional period" would delay the automatic enrolment of eligible jobholders until 30 September 2017. This means that the Council does not need to auto enrol eligible jobholders, who meet certain conditions, on the staging date. The Council would use this option for employees who have already opted out of the LGPS or STSS schemes. This would reduce the administrative burden of automatically enrolling these employees knowing that they may subsequently opt out again. Delayed enrolment will delay the additional pension contribution costs that would have been payable from May 2013. It is important to note that once the employer's pension contribution has been remitted to an occupational pension scheme; those contributions cannot be refunded to the employer. This applies even if the employee subsequently opts out of the scheme and receives a refund of their own contributions.
- 3.5 These employees have the right to opt in to a pension scheme during this period. The Council would require to issue notice to eligible job holders of our

intention to defer automatic enrolment. At a recent National Payroll Meeting 11 out of the 16 Councils represented confirmed they are proposing to use the transitional period.

Postponement

- 3.6 The option to use “postponement” for certain employees enables the Council to postpone automatic enrolment for a period up to three months. Postponement cannot be used indefinitely and would require monitoring. This would be used for:

- Short term contracts
- Unusual increase in earnings
- New starts when they start mid month

Provided that an employee is ineligible on the day after the postponement period ends, another three month period may apply. The Council would require to issue a postponement notice to those employees.

Recommendation

- 3.7 It is recommended that the Council utilises the options of the transitional period and postponement to introduce auto enrolment on 1 May 2013 and defer the majority of employers’ contributions until 30 September 2017. The Payroll Team would require to monitor all employees who have been deferred under the transitional period and during postponement to ensure certain conditions have been met.

Opting out/Opting In

- 3.8 Under the Pension Act 2011, as with existing arrangements, employees who are contractually enrolled into the pension scheme have the option to opt out of the scheme. Research undertaken by the Department of Work and Pensions (DWP) has suggested that around only 30% of those enrolled on 1 May 2013 will remain in the schemes. Employees will opt out due to the cost or their individual employment circumstances.
- 3.9 For those employees who are not eligible to be auto enrolled they have the option to voluntarily opt in to a qualifying pension scheme. In addition, employees who have received a postponement notice can ask to opt in voluntarily during this period and this overrides postponement.
- 3.10 The regulations clearly state that employers must not encourage employees to opt out of the pension scheme and therefore the Council will not provide opt out forms to employees. Trade Union representatives are also encouraged to promote pension provision to their members.

Re- enrolment cycle

- 3.11 Every 3 years the automatic enrolment process will be repeated and employees who previously opted out will be automatically re enrolled in the scheme. They can then opt out again if they wish. Employees who have opted out in the previous 12 months will be excluded from re-enrolment.

Communication

- 3.12 The communication of auto enrolment is essential to ensure all employees, managers and trade unions are aware of the changes. An Inside News Bulletin on auto enrolment will be issued to all employees following approval of this report. Thereafter further information will communication up to 1 May 2013 via Inside News and eric. Prior to 1 May 2013 all employees will be issued with a letter informing them of how auto enrolment directly affects them. Appendix 2 outlines the high level project plan for auto enrolment.
- 3.13 Perth & Kinross Council has approached Dundee City Council as the administrating authority for the Tayside Pension Fund to work collectively to ensure a consistent message is being adopted for all Tayside Pension Fund members.
- 3.14 A briefing paper has been drafted to all trade unions for all employee groups to ensure the trade unions are fully aware of the implications. Auto-enrolment has been raised at both the Employees Joint Consultative Committee and Joint Negotiating Committee for Teaching Staff.
- 3.15 The Council will work closely with its partner organisations to ensure that the information that is development for auto enrolment is shared to ensure a consistent message

4. CONSULTATION

- 4.1 In preparation of this report the Human Resources and Finance Management Teams have been consulted. The report has also been agreed by the Chief Executive's Management Team and the Executive Officer Team.

5. RESOURCE IMPLICATIONS

- 5.1 The Pension Act 2011 will increase employer's pension costs. For employees who are not members of a scheme, auto enrolment will incur a cost of 18% of salary for the LGPS and 14.9% of salary for the STSS. These employees may however choose to opt out once auto-enrolled.
- 5.2 Appendix 1 outlines in detail the cost of auto enrolment on 1 May 2013. Without the use of the transitional period it is estimated that there would be an estimated cost of £261,000 for auto enrolment. If the transitional period is adopted there would be an estimated cost of £14,000. These figures are

based on 30% retention (as per the DWP estimate). Figures are unable to be quantified for postponement as each contract would be required to be looked at on a case by case basis and is likely to change by 1 May 2013. Utilising the options of transitional arrangement and postponement will reduce the immediate costs for enrolling those employees who have already opted out or those on supply contracts.

- 5.3 With the introduction of the Short Term Resourcing Toolkit, Services now play a vital role in reviewing their short term resourcing options to reduce the numbers of supply employees. This audit will assist the Payroll Team in determining the numbers of employees eligible for auto enrolment.
- 5.4 Currently all employees pension and reduced national insurance contributions on the Council's establishment are budgeted for. Where this is not utilised the budget is used to offset slippage or other staff overspends. Depending on the circumstances for the need for short term resourcing, supply employees are not always budgeted for.
- 5.5 The Pension Act 2011 will create additional work for the HR and Payroll Team in the implementation of the changes. Thereafter, an additional burden will be placed on the Payroll Team to administer and monitor auto-enrolment. Both the implementation of auto-enrolment and its additional workload for Employment Services are currently unknown.
- 5.6 Resourcelink is required to be developed to take into account auto enrolment. The cost of this development is £2,000 and will be met within the existing Finance budget.

6. COUNCIL CORPORATE PLAN OBJECTIVES 2009-2012

- 6.1 The Council's Corporate Plan 2009-2012 lays out five Objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. This report supports the objective of a safe, secure and welcoming environment.

7. EQUALITIES IMPACT ASSESSMENT (EqIA)

- 7.1 The function, policy, procedure or strategy presented in this report was considered under the Corporate Equalities Impact Assessment process (EqIA) and was assessed as relevant. (A copy of which can be provided on request). The following positive outcomes expected following implementation:
 - The measures contained in the Pension Act 2011 help ensure a pension system that is fair and financially sustainable.
 - Auto enrolment will provide women, who have on average lower earnings than men, due to a number of factors that include working fewer hours and being paid in lower paying occupations, substantial opportunities to build pension savings in their own right.

8. STRATEGIC ENVIRONMENTAL ASSESSMENT

- 8.1 The plan, programme or strategy presented in this report was considered under the Environmental Assessment (Scotland) Act 2005 and the determination was made that the items summarised in this report do not require further action as they do not qualify as a plan, programme or strategy as defined by the Act.

9. CONCLUSION

- 9.1 Non compliance with the Pensions Act 2011 would be a breach of legislation. The Strategic Policy and Resources Committee is being asked to agree the implementation of the Council's staging date of 1 May 2013, and the utilisation of the transitional period and postponement to assist with the phasing in of auto enrolment up to 30 September 2017.

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Note: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

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If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting (*Suzanne McLeod on ext 75418*)



Council Text Phone Number 01738 442573

Appendix 1 – Cost to Auto Enrol Eligible Job Holders (As at October 2012)

COST TO AUTO ENROL ELIGIBLE JOBHOLDERS						
TOTAL EMPLOYEE HEADCOUNT	6581					
TOTAL CONTRACTS	7446					
TEACHING	2399					
NON TEACHING	5047					
					EMPLOYER'S COSTS	
					100%	30%
TEACHING POSTS NOT IN STSS (previously opted out)	172	ELIGIBLE JOBHOLDERS	54	TEACHERS	£ 68,652.04	£ 20,595.61
NON TEACHING CONTRACTED POSTS NOT IN LGPS (previously opted out)	1083	ELIGIBLE JOBHOLDERS				
		CHIEF EXECUTIVES SERVICE	11	CES	£ 31,674.33	£ 9,502.30
		EDUCATION & CHILDREN'S SERVICE	105	ECS	£ 302,230.19	£ 90,669.06
		HOUSING & COMMUNITY CARE	102	HCC	£ 311,908.84	£ 93,572.65
		HOUSING REVENUE	4	HRA	£ 10,647.43	£ 3,194.23
		THE ENVIRONMENT SERVICE	35	TES	£ 101,004.64	£ 30,301.39
			257	TOTAL	£ 757,465.43	£ 227,239.63
CASUAL JOBS (not eligible to join LGPS)	660	ELIGIBLE JOBHOLDERS				
		EDUCATION & CHILDREN'S SERVICE	22	ECS	£ 37,968.67	£ 11,390.60
		HOUSING & COMMUNITY CARE	5	HCC	£ 9,097.66	£ 2,729.30
			27	TOTAL	£ 47,066.33	£ 14,119.90
		TOTAL COST OF ALL ELIGIBLE JOBHOLDERS			£ 873,183.80	£ 261,955.14
COSTS IF TRANSITIONAL PERIOD IS ADOPTED						
CASUAL POSTS	660	ELIGIBLE JOBHOLDERS				
		EDUCATION & CHILDREN'S SERVICE	22	ECS	£ 37,968.67	£ 11,390.60
		HOUSING & COMMUNITY CARE	5	HCC	£ 9,097.66	£ 2,729.30
		HOUSING REVENUE	0	HRA	£ -	£ -
		TOTAL COST OF ALL ELIGIBLE JOBHOLDERS			£ 47,066.33	£ 14,119.90
1. Employers costs have been based on estimated annual earnings multiplied by the employers % contribution applicable per scheme and include an adjustment for reduced National Insurance contributions.						
2. Non Eligible Jobholders and Entitled Workers have the right to opt in/join the pension scheme.						
3. Employers cost include an adjustment for National Insurance.						

Appendix 2 – Project Plan – Auto Enrolment

Project Plan - Auto Enrolment															
Tasks	Prior to Oct 12	Oct 12	Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13	Jun 13	July- 13 – 30 Sept 2017				
HR and Payroll attendance at Pensions Reform Sub-Group meetings/preparation for changes.															
Legislation comes into force.															
Employee induction/new start paperwork reviewed.															
Reports produced from Resourcelink to undertake a current assessment of the workforce and potential costs.															
Draft and Inside News to all employees.															
CE MGT/EOT/SP&R - Report and EQIA.															
Trade Union Update (JCC and JNCT)															
Draft communications - Briefing and Letters produced.															
FAQ's and eric pages developed.															
SEP master paragraphs to be amended for auto enrolment.															
Development of Resourcelink															
Develop systems and practices in readiness for changes.															
Provide training/briefings to HR/Employee Support.															
Assessment of the workforce to identify information which category they fall.															
Letters sent to employees.															
Auto enrolment commences for Perth & Kinross Council (Staging Date).															
Use of "postponement" and transitional arrangements in place for some employees.															
Council registers with the Pensions Regulator.															
Staging dates for Partner Organisations.															

