Manchester City Council
Report for Information

Report to: Overview and Scrutiny Human Resources Subgroup - 5 October 2010

Subject: The Emergency Budget: Implications

Report of: City Treasurer; Assistant Chief Executive (People)

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Purpose of Report

This report considers the implications for Manchester City Council of the emergency budget in relation to pay and pensions.

1.0 Introduction

2.1 The measures announced by the Chancellor on 22 June 2010 in the coalition Government's emergency budget have significant implications for local authority staff in relation both to pay and pensions.

2.0 Pay

2.1 <u>Headline changes</u>

Three key announcements were made in relation to public sector pay ;

- A two year pay freeze for all public sector workforces from 2011-12, except those earning less than £21,000 who will receive a flat-rate increase of £250 in both of those years;

- An independent review of fair pay in the public sector, to be led by Will Hutton, Vice Chair of the Work Foundation will make recommendations on promoting pay fairness in the public sector by tackling pay disparities between the lowest and highest paid. The review will make recommendations on how to ensure that no public sector senior manager is paid more than 20 times the salary of the lowest paid in that organisation.

- An independent public service pension commission, chaired by former labour minister John Hutton has been established to conduct a fundamental structural review of pubic service pension provision in time for the Budget in Spring 2011.

2.2 Pay awards

The provisional opinion from Employers' Organisations is that increases on pay rates, are set through the collective bargaining machinery, e.g. NJC; Craft; Soulbury; Youth; JNC. Therefore notwithstanding the outcome of the review of fair pay in the public sector, the Government do not at present have an ability to intervene directly on pay arrangements, although the CSR will be constructed on an assumption that there will not be any pay increases outside of the flat-rate increase of £250.

It is clear that despite national dictat on pay levels there will continue to be tension between trade unions and the Government, and individual employers and the trade unions in the setting of pay levels.

No pay awards have been agreed for 2010/11 with the exception of a 2.3% settlement in relation to teachers with effect from September 2010, though both NJC and Craft workers continue to pursue increases in pay, and the staff side of the NJC have registered a dispute and requested arbitration.

The Local Government Employers organisation confirmed in a letter to the Trade Union secretaries dated 5 August 2010 that the employers position remains unaltered in and that were will be no further NJC pay awards for the 2010/11 year. It also stated that it would not agree to their request for the dispute to be resolved through arbitration as it was not in a position to agree to an outcome which would be binding on all parties.

The other outstanding pay claim for the 2010/11 year relates to Chief Officers. There has been no movement on this since the LGE sent a letter to the staff side in December 2009 restating its position that there will be no pay award agreed and that it will not enter into arbitration.

2.3 Budget Implications of pay increase to low paid

The £21,000 is for FTE equivalent earnings and is measured against basic pay (i.e. not including overtime or other allowances). There are over 12,500 employees earning below £21,000 broadly split 50:50 between mainstream and schools. When this is translated to full time equivalent (FTE) costs the result on the mainstream budget is circa £1.1m and Schools circa £754,000 in both 2011/12 and 2012/13.

An approximate breakdown across services is:

Adult Services	£253k
Chef Executives	£112k
Children's Services	£214k

Corporate Services	£125k
Neighbourhood Services	£399k
Schools	£754k

Employment "on costs" for income tax, national insurance and pension contributions could add up to a further 20% to these figures.

2.4 Fair Pay Review

The review will report its recommendations in March 2011 with an interim report due by the end of September 2010.

As part of this review relevant parties have been invited to submit their views. The Local Government Employers organisation has stated that it remains to be convinced that the pay of senior managers in local government is excessive given the scale and complexity of their roles. It has also stressed that the use of over-prescriptive formulas to set or limit pay would not be desirable.

A further update will be provided once the interim report has been published.

2.5 Impact of pay review on senior management

The proposed review of fair pay in the public sector will, amongst other things, ensure that no public sector senior manager is paid more than 20 times the salary of the lowest paid in that organisation. Using the Manchester minimum wage of £12,740 as at 1 April 2011 as a baseline would put a ceiling of circa £255k on senior management salaries, which is well above the pay level for all managers, including the Chief Executive.

Most of the Council's Strategic Directors also hold positions (appointed to by the Council) as Directors of charitable/non charitable companies and governors of schools. This has no impact on the salary ceiling as they do not receive payment for holding these positions.

A small number of senior managers undertook duties for the Combined Parliamentary and Local Election in 2010, for which:
Deputy Returning Officers received £600 gross
Chief Counting Officers received £434 gross

Payments to officers for non-council appointed directorships are negligible (£15,225 in this financial year).

3.0 Pensions

3.1 Affordability of Local Government Pension Scheme

The Audit Commission published a report in July 2010 in which it stated that there would need to be changes to the way the LGPS is managed. It stated that there were problems regarding the long term affordability of the scheme.

Two key reasons for this are ;

- The cost of providing pensions for local authority employees is rising in absolute terms and as a proportion of pay because of increasing life expectancy and action needed to recover funding deficits.

- Pension funds have been affected by lower than anticipated investment returns; the value of assets today is approximately 15% lower than anticipated in 2007.

3.2 Changes already introduced

- The Government announced in its emergency Budget earlier this year that state benefits and public service pensions will increase in line with the consumer prices index (CPI) from April 2011, replacing the current system whereby increases are in line with the retail prices index (RPI). Historically the CPI has been lower than the RPI. The GMPF Actuary has estimated that this change will increase the funding level by up to 10%, which will help to mitigate employer contribution costs.

- Where staff have transferred to Local Government from Learning and Skills Councils the LGPS (Benefits, Membership and Contributions) Regulations 2007 have been amended to provide that they retain the right to voluntarily retire at age 60 on an unreduced pension (compared to the normal pension age of 65 in the LGPS). Manchester City Council currently employs a small number of staff who have transferred from LSCs. The associated costs are therefore low.

3.3 Changes to state pension age

Currently, the state pension age for men and women is set to rise to age 66 by 2026, to age 67 by 2036 and to age 68 by 2046. The Government has announced it is going to review whether the date at which state pension age will increase from age 65 to age 66 should be brought forward.

3.4 Changes to retirement age

Regulations will be introduced from October 2011 which remove the right of employers to require employees to retire at the age of 65.

This could result in employees choosing to stay in work beyond 65 and continuing to pay pension contributions which in turn could lead to an increase in the cost of pension benefits. The increased cost is potentially offset by the decrease in the number of years the pension would be payable although this decrease will be negated if life expectancy continues to rise.

3.5 Restrictions on pensions tax relief

From April 2011 the government currently plans to reduce the tax relief threshold for pension benefits from £255,000 per year to between £30,000 and £45,000. This would impact most directly on employees for whom the value of their pension pot increased significantly due, for example, to a promotion, but could also affect people retiring early owing to health or efficiency grounds, and therefore impact on the Council's ability to manage workforce reductions.

3.6 Review of public sector pension provision

An independent public service pension commission, chaired by former labour minister John Hutton has been established to conduct a fundamental structural review of pubic service pension provision in time for the Budget in spring 2011.

The commission will also report its interim findings by the end of the second week in October 2010 including recommendations for immediate savings, ahead of the autumn's Comprehensive Spending Review which is due to be published on 20 October 2010.

This report had intended to report on the interim findings which were originally due to be released in September 2010. A further update will be provided on receipt of these findings, however these are likely to feature:

- Rise in employee / employer contributions

It is widely anticipated that proposals will include the raising of employee contributions. Employee contribution rates have already recently been changed as part of the revised LGPS regulations which were introduced in April 2008. Instead of a flat rate of contribution a new scale of rates was introduced based on salary. The range of employee contributions is currently between 5.5% and 7.5% of salary however increased pressures placed on the fund due to increased life expectancy and general poor investment returns is likely to mean the employee rate could rise further to balance out the increases on employer contributions.

As an indicator of cost to Manchester City Council, the current employer contribution rate is 13.6 % per employee, and this rate is expected to increase by 1% each year for a period of 3 years from April 2011. Even at the increased level this is still one of the lowest employer contribution rates for LGP Schemes anywhere in the country.

- Changes to retirement age

Another possible option is to increase the age at which members of the LGPS can access their pension without reductions. At present, the normal pension age (i.e. without reductions) is 65 although some employees can retire at 60 without reductions. Although this means that members will draw their pension for fewer years on average, the level of benefit drawn may be higher if members continue to contribute to the scheme for the additional years they are employed, and there will be ongoing costs associated with employer contributions.

- Basis of the LGPS

The commission may recommend moving from final salary to a scheme based on career average salary. It is argued that the current final salary scheme disproportionately benefits a minority of the workforce because it tends to benefit longer serving staff with higher earning growth (via increments and promotions) compared to the majority of staff, many of whom remain static and/or are lower paid, part time females.

These changes are speculative at this stage however their potential impact on Manchester City Council will be considered in more detail and reported on if/when confirmed.

4.0 Recommendations

4.1 That the impact of the emergency budget on Manchester City Council in relation to pay and pensions is kept under close review both in terms of those changes already announced and those changes which arise from the publication of the Fair Pay Review and Public Service Pension Review reports.