DUNDEE CITY COUNCIL

REPORT TO: **POLICY AND RESOURCES COMMITTEE – 14 SEPTEMBER 2015**

REPORT ON: **ABOLITION OF NATIONAL INSURANCE CONTRACTED OUT RATES**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **345-2015**

1 PURPOSE OF REPORT

1.1 To inform Committee of the impact of the UK Government decision to abolish National Insurance contracted out rates for employees and employers.

2 RECOMMENDATIONS

2.1 The Committee are asked to note the significant impact that this change will have on both the City Council as an employer and on individual employees themselves.

3 FINANCIAL IMPLICATIONS

3.1 The estimated cost of this will be £4million per annum from 2016/17 onwards.

4 BACKGROUND

4.1 On 6 April 2016 the current basic state pension and state second pension (S2P) will be abolished and replaced by a single-tier state pension. The abolition of S2P will also mean the end of contracting-out. The measures to implement the single-tier state pension and abolition of contracting-out are contained in the Pensions Act 2014.

4.2 Currently contracted-out schemes must provide a certain level of Defined Benefit (DB) benefits, sufficient to satisfy the statutory reference scheme test, and in return both employer and employees pay lower National Insurance Contributions (NICs). The abolition of contracting-out will therefore have cost implications for both employers and employees because of the loss of the NIC rebates. As a result, employers' Class 1 NICs will increase by 3.4% (of relevant earnings) and employees' Class 1 NICs will increase by 1.4% (of relevant earnings). The 2015/16 relevant earnings for this purpose being employees' earnings between the Primary Threshold (£155 a week) and the Upper Accrual Point (£770 a week).

4.3 Dundee City Council employees are members of the Local Government Pension Scheme or the Scottish Teachers Superannuation Scheme. Both of these will be affected by this change. Accordingly the City Council will be required to pay an additional 3.4% of relevant earnings for employees who are members of these schemes. Based on projection from 2014/15 contributions this is expected to be approximately £4 million.

4.4 Similarly employees will be required to pay an additional 1.4% of relevant earnings which will reduce their take-home pay by £1.6 million per annum.

5 POLICY IMPLICATIONS

5.1 This report has been screened for any policy implications in respect of sustainability, strategic environment assessment, anti poverty, equality impact assessment, privacy impact assessment and risk management.

5.2 The impact of £1.6 million being removed from the local economy will have a clear detrimental impact on the anti-poverty strategies which are being pursued.

6 CONSULTATIONS

6.1 The Chief Executive and Head of Democratic and Legal Services were consulted in the preparation of this report.

7 BACKGROUND PAPERS

7.1 None

MARJORY M STEWART
Executive Director of Corporate Services DATE: 28 AUGUST 2015