

To:
Chief Executives (local authorities including Wales)
Clerks to Police, Joint Fire and Transport Authorities

Please circulate to those responsible for:
Finance, Member Services



Members' Allowances – Daily Rate

26 March 2008

Dear Colleague

In March 1995, the former Associations issued a guidance note on implementing the Local Authorities (Members' Allowances) Amendment Regulations 1995. The guidance followed the last major revision to the allowances system before that brought about by the Local Government Act 2000. The guidance suggested that local authorities might wish to adopt a "day session" rate when developing and updating their local scheme of allowances for members. At that time, a daily rate of £86 was suggested, based on the mean male non-manual wage, as set out in the annual New Earnings Survey (NES).

A copy of the original 1995 LAAs guidance was circulated with **LGA Circular 48/02**, which can be accessed on the LGA web site.

As a service to member authorities, the LGA has continued to circulate a revised rate for use by local authorities derived each year from the latest NES data, as provided by the Employers' Organisation. However, it should be emphasised that the daily rate has no statutory force, and authorities and their independent remuneration panels are free to use other indices to up-rate allowances, if they so wish.

Over the years, it has been necessary to change the basis of this data. In 2004, it was necessary to change the basis of the daily rate, as the 2003 NES survey did not distinguish between manual and non - manual workers. The daily rate for 2004 and subsequent years was accordingly based on the daily rate for all full time employees. In 2005, the New Earnings Survey was replaced by the Annual Survey of Hours and Earnings.

In 2006, the Employers' Organisation advised that the Office of National Statistics recommended the use of the median, rather than the mean, as an appropriate measure of the average pay rates. This was because the distribution of pay is skewed. Relatively small numbers have very high pay, so the upper end of the pay

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'tail' is elongated. On the other hand, the Minimum Wage provisions act as a cut-off at the lower end. The mean is therefore influenced by the very high earnings of relatively few people. The median is much less affected.

In the light of the ONS advice, the LGA last year moved to the use in future years of the median increase in calculating its indicative daily rate, rather than the mean increase as previously used.

Using the median increase, (as favoured by the ONS), the increase for 2007 was **2.9%**. The application of this percentage increase to the present daily rate of £138.75 gives a daily rate of **£142.77**.

I would re-iterate that this daily rate is purely advisory, and local authorities are free to use these or other indices and benchmarks which they feel appropriate to up-rate their member allowance rates.

Yours sincerely